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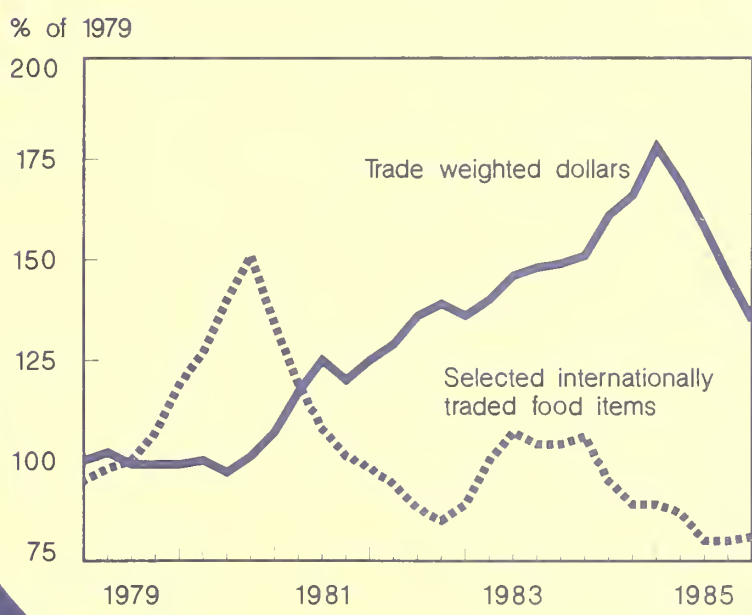
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June 1986

World Agriculture

Situation and Outlook Report

1985
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Dollar Value and World Food Prices



Dollar has moved in
opposite direction from
international commodity prices.

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Note: Tons are metric, dollars are U.S., and rice is on a milled basis unless specified otherwise.

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SUMMARY

World economic growth in 1986 will average about 2.9 percent, near last year's estimated 3.1 percent. Slowdowns in Japan and the oil-exporting countries may more than offset accelerating growth in Europe and, possibly, the developing countries of Asia. Inflation could decline further in the face of monetary restraint in many countries, reduced prices for petroleum and other commodities, and continued high unemployment rates. For the developed economies, inflation will almost certainly fall below the 4-percent average of 1985.

Interest rates are expected to remain low, compared with the 1980-85 average. Led by declines in U.S. rates since January, and helped by the dollar's depreciation, many foreign interest rates have fallen by 2 percentage points, and will probably average lower this year than in 1985.

After declining since February 1985, the dollar is still under pressure. The dollar recently fell to a series of postwar lows against the Japanese yen, breaking below 160 yen before recovering. Movements in the dollar's value are strongly--and inversely--related to the prices of a wide variety of internationally traded goods, including agricultural products. When the dollar rises, world prices (in dollars) fall and vice versa. Judging from the past, a long trend of dollar depreciation portends upward pressure on international commodity prices, including food items.

Agriculture's contribution to the U.S. trade balance continues to shrink. This year's agricultural trade surplus, forecast at \$7.5 billion, will be the smallest in over a decade. The volume of U.S. agricultural exports will decline for the sixth straight year in fiscal 1986, while the value of agricultural imports

will probably reach a record high for the third consecutive year.

The U.S. trade balance with Africa and the Middle East has changed substantially during the last 15 years: After starting with a \$1-billion surplus, trade reached a deficit of more than \$30 billion in 1980, before moving to a current deficit of around \$3 billion. The region is almost a \$20-billion market for the United States, with agriculture more than 25 percent of the total. U.S. imports from the region total about \$23 billion, with a 6-percent share for agriculture.

Rapidly accelerating demand for food is exceeding productive capacity in developing countries. The situation has been complicated by a substantial withdrawal of international credit, which is likely to continue. While the fall in oil prices will moderate oil importers' need for new credit, substantial inflows are still needed, but may be several years away. The developing countries' increasing dependence on foreign supplies may create growing markets for U.S. food and feed grains; however, the potential is constrained by the current financial situation.

World meat production and exports will increase in 1986, but at a slower pace than last year. Poultry and pork expansion will more than offset a slight decline in beef output. Beef shipments resulting from EC and U.S. dairy reduction programs are altering world trade flows.

The Soviets have suspended agricultural activity within a 30-kilometer radius of the Chernobyl reactor. The abandoned area is not agriculturally important. The overall impact of the nuclear accident on Soviet agricultural production will not be known until the Soviets release additional information.

WORLD ECONOMIC CONDITIONS

Global Assessment

World economic growth in 1986 will average about 2.9 percent, near the 3.1 percent estimated for last year. Expected slowdowns in Japan and the oil-exporting countries will more than offset accelerating growth in Europe and, perhaps, the developing countries of Asia. Inflation could decline further in the face of monetary restraint in many countries, reduced prices for petroleum and other commodities, and still-high unemployment rates. For the developed economies, inflation will almost certainly fall below the 4-percent average of 1985.

Interest rates will likely remain low, compared with the averages of 1980-85. Led by declines in U.S. interest rates since January, and helped by the dollar's depreciation, many foreign interest rates have fallen 2 percentage points, and will probably average lower in 1986 than in 1985. Unemployment will remain high in most developed economies; the United States continues to lead other nations in the decline of its unemployment rate.

Dollar Decline Influences Outlook

Several significant events during the past year have laid the groundwork for this year's outlook. Perhaps the most important has been the 30-percent decline of the dollar between February 1985 and mid-June 1986, measured by the Federal Reserve Board's index of the dollar's value. By May 1986, the expected effects of the depreciation appeared to be taking hold. For example, some countries' exports had begun to decline, and this has brought down profits, industrial production, capacity utilization, and other indicators. For France, Germany, and the Netherlands, industrial production declined an average of 4.3 percent in the first quarter of 1986 from the fourth quarter of 1985, while increasing marginally from the previous year. Japan's pre-tax corporate profits declined in April for the ninth consecutive month, and capacity utilization and raw materials consumption fell for the eighth straight month. Since these declines have occurred despite buoyant consumer demand, they may have resulted largely from the falloff in exports.

A second major effect of the dollar's drop is the decline in foreign interest rates. Foreign officials, no longer having to maintain their currencies' values against the dollar, have reduced their interest rates along with declines in U.S. rates. To illustrate, the 2.5-point decline in rates for U.S. certificates of deposit (CD's) between February 1985 and mid-May was almost exactly matched by declines in the average foreign interest rate on comparable assets. This is in sharp contrast to the time when the dollar was strong and officials attempted to limit capital outflows and their currencies' depreciation. From June to December 1984, when the dollar appreciated almost 9 percent, U.S. CD's declined almost 3.5 percentage points. In contrast, foreign interest rates fell only 1 point.

Lower Oil Prices To Boost Foreign GNP

Another significant event of the past year is the decline in world petroleum prices, more than 50 percent from the 1985 average price of \$28 per barrel. Settling at about \$12 per barrel in early June, oil prices will likely average about \$18 during the first half of 1986 and perhaps close to \$15 afterward, for an annual average of about \$16. Savings for the oil-importing countries could amount to \$72 billion this year, assuming an average oil price of \$16 and unchanged import volumes from 1985. The direct effects of this saving will likely provide a significant boost to the oil-importing economies. The indirect effects, through lower inflation and interest rates, will boost economic activity further. Negative effects for oil-importing countries will likely be small because most do not have domestic oil sectors that would suffer from lower prices.

Globally, the net effects of lower oil prices will likely be positive. The gains accruing to the oil importers will likely outweigh the losses to the oil exporters. Only a few of the oil-exporting countries are apt to suffer immediate economic hardship; many will be able to draw down their assets to minimize cutbacks in expenditures. Mexico, and perhaps Venezuela, are possible exceptions because of their large populations and need for export earnings to meet debt payments. The expected shortfall in Mexico's export earnings could double its financing needs this year.

One-Percent Boost to Foreign Industrialized GNP

Savings in petroleum imports for the major industrialized economies--Japan, Canada, the United Kingdom, Germany, France, Italy, and the Netherlands--will amount to roughly \$48 billion in 1986, assuming an average price of \$16 per barrel and unchanged import volumes. For this group, except Canada and the United Kingdom, almost all oil needs are imported. The savings from 1985 to 1986 represent more than 1 percent of these countries' GNP and 1.2 percent if Canada and the United Kingdom are excluded.

The assumption that quantities of oil imported will remain unchanged in 1986 and pick up in 1987 is based on experience. Typically, oil imports lag price changes by a year. Europe's diminishing output suggests that demand for petroleum products may rise slowly, and perhaps even decline, thus delaying a pickup in petroleum imports.

Another factor that suggests that oil import volumes may remain fairly steady is that many consumers have not seen internal oil prices decline to nearly the extent they have on world markets. Foreign governments are keeping their domestic oil prices high by raising oil taxes, preventing savings from being spent on other, possibly domestic, goods and services. This lost domestic production represents a short-term loss to countries with oil-tax policies. The longer-term gain, which is probably much smaller, is that the increased tax receipts help to lower government deficits and, in turn, the need to sell government bonds, which tend to reduce interest rates.

Conservation and Substitution Dampen Effects

The economic boost from declining oil prices could be much greater if important conservation and substitution measures had not been taken over the past 14 years. These measures have already reduced the volumes of oil imported and consumed, lowering possible savings. To illustrate, oil imports of the major foreign industrialized nations, excluding Canada and the United Kingdom, declined from 8.3 billion barrels in 1973 to 3.7 billion in 1985, a 55-percent drop. For the major European countries, excluding the United

Kingdom, the decline was 61 percent, from 5.7 billion barrels in 1973 to 2.2 billion in 1985.

Oil Exporters Likely To Reduce Imports

The oil-exporting countries will have smaller revenues with which to finance imports from nonoil exporting countries, but the overall effects will likely be small. Each billion-dollar reduction in the export earnings of oil-exporting countries translates into a \$690-million reduction in their import expenditures. A decline in exports of \$72 billion in 1986, reflecting unchanged export volumes at \$16 per barrel, would imply a potential decline in imports of \$50 billion, roughly 3 percent of the exports of the rest of the world. [Art Morey (202) 786-1687]

Dollar Exchange Rates

The dollar's decline, begun in February 1985, appeared to abate during the second quarter of 1986, with central banks in the United States, Japan, and Germany pushing to stabilize the dollar. However, the persistently large U.S. trade deficit continues to generate political pressures for further depreciation, particularly against many developing countries' currencies compared to which the dollar remains strong. Reacting to March reports of a U.S. trade deficit equivalent to \$174 billion annually, the dollar reached a series of postwar lows against the Japanese yen, dipping temporarily below 160 yen before recovering.

Concerted action by G-5 nations (the United States, Japan, Germany, France, and the United Kingdom) to lower the foreign exchange value of the dollar, which began in September 1985, broadened in January 1986 to include interest rate reductions made possible by plummeting oil prices. Discount rate reductions, either individually or in concert among central banks in the United States, Japan, Germany, and others, have lowered official and commercial interest rates several points since January. By mid-April, official discount rates stood at 6.5 percent in the United States, and 3.5 in Japan and Germany.

G-7 Tokyo Economic Summit

The heads of State and Government from the United States, Japan, West Germany,

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	Can\$
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.198
1982	2.427	248.8	.5722	2.669	1.233
1983	2.554	237.4	.6597	2.853	1.232
1984	2.847	237.6	.7517	3.209	1.295
1985	2.942	238.3	.7790	3.319	1.365
1986					
Jan.	2.437	199.8	.7014	2.746	1.407
Feb.	2.330	184.8	.6999	2.632	1.404
Mar.	2.276	178.6	.6809	2.565	1.400
Apr.	2.268	174.7	.6671	2.560	1.387
May	2.226	166.9	.6564	2.505	1.375
June 1/	2.240	168.4	.6644	2.520	1.389

1/ Preliminary.

France, the United Kingdom, Italy, and Canada (the G-7 countries), as well as the Commissioner of the European Communities, met in Tokyo, Japan, May 4-6, for their annual summit conference.

Their communique announced measures that could lead to more stable foreign exchange markets. At future summit meetings, G-7 finance and economic ministers will meet to collectively review individual economic objectives and forecasts in light of "objective indicators." These indicators will include such items as GNP growth rates, inflation rates, unemployment rates, fiscal deficit ratios, current account and trade balances, monetary growth rates, reserves, and exchange rates. Ministers will then make their "best efforts" to remedy any problems arising from policy differences.

Regular consultations and their public review are hoped to encourage better policy coordination among the major economies. Such coordination could provide greater world economic stability and growth than in the decade and a half following the demise of the Bretton Woods fixed-exchange-rate regime.

Outlook

Central bank governors from the United States, Japan, and Germany appear to be in agreement about stabilizing the dollar in forthcoming months as a precaution against inflationary pressures. The rapid appreciation of the yen since September 1985 from just below 240 to near 167 per dollar on average in May 1986 has particularly hurt Japanese small- and medium-size industry, leading the Bank of Japan to call for coordinated support of the dollar. However, the effects of large

U.S. trade deficits on U.S. businesses generate similar pressures in the United States for further dollar depreciation.

Consequently, central banks seem to be trying to stabilize the dollar within 160 to 180 Japanese yen and 2.15 to 2.25 German marks to allow trade adjustment. Recent realignment of the ECU (European Currency Unit) in the European Monetary System, in which the French franc and the German mark figure prominently, has left interest rate reductions a greater possibility in France than in Germany. French interest rate reductions might weaken the franc slightly toward 7 francs per dollar. Less volatile oil prices are also likely to work toward maintaining the British pound around its current rate of \$1.54 per pound.

Renewed confidence in the Canadian economy has stopped its continued depreciation against the U.S. currency, strengthening the Canadian dollar from volatile lows of Can\$1.44 in February to near Can\$1.38 in mid-May. The Australian dollar, although ending its strong depreciation against the U.S. currency in April 1985 to near Aus\$1.50, has not strengthened markedly since then, averaging Aus\$1.37 in May 1986. [Ted Wilson (202) 786-1688]

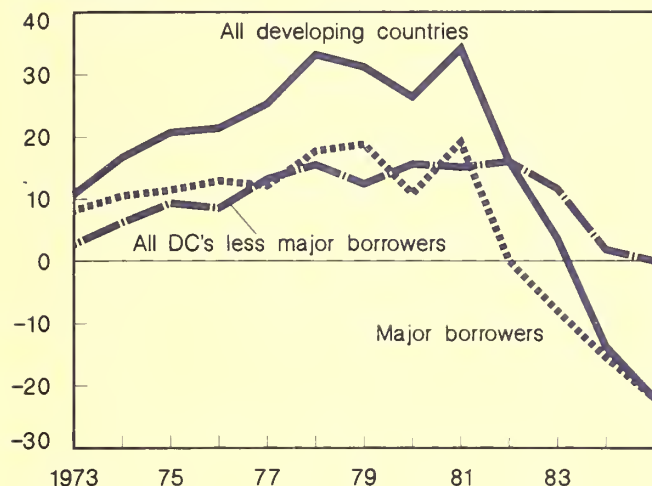
Credit Flows to Developing Countries

Global Patterns

Developing countries found it increasingly difficult to acquire new credit in 1985. Funds again flowed out of developing countries in increasing amounts. Net international transfers (international loan disbursements minus international debt-service payments) to developing countries amounted to \$22 billion in 1985 compared with almost \$14 billion in 1984. As recently as 1981, there was an inflow to developing countries of more than \$34 billion. The outflow was concentrated in the major borrower nations (international debt in excess of \$15 billion). For developing countries other than major borrowers and low-income African countries, there has been a substantial decline in net transfers rather than a net outflow. Although this is already a bleak picture, the prospects for 1986 suggest the situation may get worse.

Net International Transfers to Developing Countries

Billion dollars



Underlying the patterns of credit flows are those of trade. The trade deficit for all developing countries peaked in 1981 and declined thereafter, achieving a slight surplus in 1985. This reflects the dramatic changes in Brazil and Mexico, who had spectacular trade surpluses in 1983 and 1984. However, through 1984, the change in the trade pattern was almost entirely accounted for by declining imports. For low-income African countries there has been no significant narrowing of trade deficits, and balance of payment adjustments still need to be made.

Impact on Agriculture

There are large surpluses of agricultural commodities in the industrial market countries. Over the short run, this appears to be increasing. Responding to this situation and the short-term loss of competitiveness of U.S. agriculture, U.S. policies appear to be designed to depress world prices.

Virtually all commodity prices are being depressed. Increasing supplies of commodities on world markets in order to generate foreign currency for debt repayment will tend to further depress agricultural and commodity markets. There is little indication that the situation will change in the near future.

Real interest rates remain historically high, but may decline over the next several years. A decline will reduce some of debt service payments on variable rate debt and thus tend to ease the debt payment pressure on the developing countries.

The substantial declines in oil prices have a different impact on developing countries' financial state, depending on whether the country is an oil importer or exporter. For oil-importing countries the price decline reduces the oil import bill and frees resources to make debt service payments or increase imports. For oil exporters such as Mexico, Nigeria, and Venezuela, the loss in export revenue will make their financial situation far worse.

Withdrawal of Credit To Continue

The current situation is one of substantial withdrawal of credit resources to developing countries. This is likely to continue. Although declining interest rates may reverse this condition and the oil price decline will moderate oil importers' need for new credit, it will take at least several years before substantial flows of new resources are available to the developing countries.

[Mathew Shane (202) 786-1705]

World Shipping

Freight Rate Futures Contracts

The introduction of dry bulk freight rate futures contracts represents the first offering of a "services" futures contract, enables hedging against dramatic price movements that characterize the dry bulk charter market, and provides a gauge of future freight rate trends. Freight futures contracts have been traded since May 1985 on the Baltic International Freight Futures Exchange and the International Futures Exchange.

Freight futures trading is accomplished by indexing rates for the major dry bulk commodities shipped over specific routes and a cash settlement of contracts. Although trading determines the value of the freight futures contracts (each index point is valued at \$10), futures trading is based on the Baltic Freight Index (BFI), an indicator of the expected direction of dry bulk freight rates. In addition, the BFI directly affects futures contracts four times a year when it is used to settle expiring contracts.

The BFI is calculated daily from estimates made by a panel of eight shipping brokers. Each broker submits freight rate estimates for the 13 leading bulk commodities

Baltic freight index, grain components, and rate projections

Month	BFI	U.S. Gulf to			U.S. N. Pacific to
		Belgium	Japan	Venezuela	S. Japan
Jan. 1985 = 1000		Dollars per metric ton			
1985					
May	1062.0	11.05	16.57	11.83	8.75
June	930.8	8.54	13.88	11.17	8.40
July	864.5	7.44	13.04	10.00	7.80
Aug.	718.2	5.78	10.00	7.08	7.08
Sep.	739.5	6.28	10.75	7.88	7.02
Oct.	866.5	8.33	14.46	9.95	9.00
Nov.	906.5	8.07	13.50	10.39	9.38
Dec.	916.5	8.53	13.08	12.79	8.65
1986					
Jan.	897.5	7.75	13.10	13.04	8.63
Feb.	827.5	6.92	12.00	8.32	8.70
Mar.	734.0	5.99	10.09	7.14	8.25
Apr.	732.0	5.75	10.50	6.72	8.45
May	658.0	5.86	8.50	6.67	7.16
Spot BFI rates on					
May 18, 1986		6.02	9.32	6.94	6.88
Projections 1/ Rate implied by futures price					
July 1986		6.00	9.28	6.91	6.85
Oct. 1986		6.74	10.44	7.77	7.71
Jan. 1987		6.92	10.72	7.98	7.91
Apr. 1987		7.46	11.56	8.61	8.60

1/ Formula for projected rates was developed by Barry D. Parker, Man International Futures, Inc.
Projections based on futures prices for months listed.
Source: Baltic Freight Futures Exchange

moving on the most regularly traveled trade routes. The highest and lowest estimates are rejected and the remainder averaged into an index that is weighted to reflect market activity.

Practical Uses of Freight Futures

The daily BFI is a measure of current (or 'spot') freight rates, while the index for the futures contracts, sold for delivery during the next 12 months, reflects expectations for future freight market conditions. Also, shipping analysts forecast approximate individual BFI components as the product of: Futures price in the delivery month times the spot for a specific cargo movement/BFI spot.

BFI Reflects Freight Market Slump

Decreased demand for shipping services resulted in a 38-percent decline in the BFI between May 1985 and May 1986. Temporary seasonal strengthening of rates for grain moving from the U.S. North Pacific to South Japan are exceptions to the general trend. While rates for grain moving from the U.S. Gulf to Belgium, Japan, and Venezuela averaged a 47-percent decline over the past

year, rates for grain moving from the U.S. North Pacific to South Japan decreased only 18 percent, reflecting stronger demand for shipping services.

Freight Rates To Strengthen

Using the forecasting formula, future grain freight rates are projected to decline slightly in July, but increase 12 percent between July and October, rise slightly between October and January, and advance 8 percent between January and April. [Kay L. McLennan (202) 786-1624]

U.S. AGRICULTURAL TRADE

U.S. agricultural trade prospects are brighter for the latter part of 1986 and beyond as constraints such as the strong dollar and weak foreign economic growth are easing. However, during fiscal 1986 U.S. agricultural export volume will decline for the sixth consecutive year, and U.S. agricultural import value will probably be record high for the third straight year. At \$7.5 billion, the U.S. agricultural trade surplus is forecast to be the smallest in over a decade. For 1986 at least,

the constraints that remain on U.S. trade will more than offset those removed.

Overseas agricultural production is one such offsetting influence this year. A rebound in Soviet grain production has removed what was an important stimulus to U.S. and world agricultural trade in 1985. Similarly, the last grain harvest in Western Europe was the second largest on record. Thus, despite the dollar's 25- to 35-percent decline against major European currencies, and prospects for the strongest European economic performance in years, lower U.S. farm product exports to Western Europe are expected.

Even a beneficial shift in foreign agricultural production has proven a double-edged sword for the United States. U.S. soybean and soybean meal exports are notably higher this year following a drought which cut production in Brazil. However, this same drought drastically curtailed Brazilian coffee output, raising prices and adding \$760 million to the U.S. coffee import bill. Without higher 1986 coffee prices, U.S. agricultural imports would probably have declined rather than risen this year, offsetting some of the declining trade surplus.

Dollar's Decline Not Universal

The dollar's pronounced drop against major world currencies has improved U.S. trade prospects in some sectors. However, the currencies of major U.S. agricultural competitors—Argentina, Canada, and Australia—continued to weaken until recently, depriving agriculture of some benefits. Canada is also one of the United States' largest agricultural customers, ranking fourth in 1985, and halfway through fiscal 1986 Canada and three other top U.S. customers had seen their currencies weaken against the dollar. The others were Mexico, South Korea, and Taiwan, the United States' fifth-, sixth-, and seventh-largest agricultural export markets in 1985, respectively.

Finally, although realignment of U.S. prices to better reflect world market conditions is underway, the first steps will not be complete until yearend. Thus, U.S. agricultural exports will be constrained by importers' desires to postpone purchases until lower prices become effective. Wheat offers a prime example of such adjustments since the

U.S. agricultural export volume 1/

Commodity	1983	1984	1985	1986 F
Million metric tons				
Wheat	36.7	41.7	28.5	26.0
Wheat flour	1.5	1.1	.8	1.2
Coarse grains	53.8	55.5	55.2	42.2
Rice	2.3	2.3	2.0	1.8
Feeds and fodders	7.0	6.8	6.4	7.0
Soybeans	24.5	19.3	16.6	21.5
Soybean meal	6.4	4.9	4.5	5.4
Soybean oil	.9	.8	.8	.6
Other oilcake and meal	.2	.2	.1	.1
Sunflowerseed	1.4	1.0	1.0	.5
Sunflowerseed oil	.2	.2	.1	.1
Cotton, incl. linters	1.2	1.5	1.3	.5
Tobacco	.2	.2	.3	.2
Horticultural prod.	3.0	2.9	2.7	2.7
Beef, pork, and variety meats	.4	.4	.4	.4
Poultry meat	.3	.2	.2	.2
Animal fats	1.4	1.4	1.2	1.3
Other	3.4	3.2	3.6	3.8
Total	144.8	143.6	125.7	115.5

1/ Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc. F = forecast.

U.S. agricultural export values 1/

Commodity	1983	1984	1985	1986 F
Billion dollars				
Grains and feeds	15.2	17.4	13.4	10.2
Wheat and prod.	6.2	6.8	4.4	3.6
Rice	.9	.9	.7	.5
Feed grains and products	6.6	8.2	6.9	4.6
Oilseeds and prod.	8.9	8.8	6.4	6.6
Soybean cake and meal	1.4	1.2	.8	1.1
Soybeans	5.9	5.7	3.9	4.4
Soybean oil	.5	.6	.6	.3
Livestock prod.	3.0	3.5	3.3	3.5
Poultry prod.	.5	.4	.4	.4
Dairy prod.	.4	.4	.4	.4
Horticultural prod.	2.7	2.6	2.6	2.7
Cotton, incl. linters	1.7	2.4	2.0	.7
Tobacco	1.5	1.4	1.6	1.5
Other	.9	1.1	1.1	1.4
Total	34.8	38.0	31.2	27.5

1/ Fiscal year. F = forecast.

new crop year began in June 1986, leaving one-third of fiscal 1986 in the lower-priced crop year.

U.S. wheat export volume through May was between 5 and 6 million tons below the

same period in fiscal 1985. However, by the end of this fiscal year this gap is expected to narrow to 2.5 million tons as waiting importers reenter the market. Export sales of other commodities have been affected by similar postponements, but since their price adjustments come later in the year, some sales will probably be postponed out of fiscal 1986 entirely. [Stephen MacDonald (202) 786-1621]

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

The world wheat situation in 1986/87 is expected to resemble that of the past 4 years: production outpacing consumption, leaving ending stocks at new highs. Wheat production in 1986/87 is forecast at 504 million tons, with foreign production rising to a new high. World trade in wheat and rice will likely increase in response to lower prices, but large domestic supplies in many importing nations may temper the near-term import growth.

Large Crops Temper Imports

Large wheat crops are expected worldwide, with near-record crops expected in Brazil, Canada, China, and the EC-12. In South Asia, record crops have recently been harvested in Pakistan and India. Pakistan's import needs will be considerably smaller this year, while India, a former importer, will have record exportable supplies.

Soviet production, on the other hand, is estimated at 77 million tons, down 6 million from last year because of dry weather in the Ukraine and the Volga Valley. The largest year-to-year decline is forecast to take place in the United States, with 1986/87 production down more than 7 million tons from 1985/86. Reasons include dryness in the Western Plains, drought in the South, and large participation in the Government acreage reduction program.

While world import demand is expected to increase 5.5 million tons to 91.5 million in 1986/87 (July/June), trade will still be depressed compared with the 100-million-ton average of 1980/81-1984/85. Despite low

Wheat: World production, consumption, and net exports

Country	1984/85			1985/86			1986/87 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	70.6	31.4	37.9	66.0	29.5	24.7	58.6	31.8	30.3
Canada	21.2	5.2	19.4	23.9	5.8	17.5	26.0	5.5	19.0
Australia	18.7	3.7	15.3	16.1	3.2	15.7	15.3	3.1	14.5
EC-12	82.8	59.6	13.0	71.5	59.8	11.1	75.4	59.1	12.2
Argentina	13.2	4.6	8.0	8.5	4.4	6.1	9.6	4.5	4.6
Turkey	13.3	13.6	-5	12.7	13.7	-6	13.0	13.9	-5
Major importers									
USSR	73.0	96.1	-27.1	83.0	98.0	-15.0	77.0	93.0	-16.0
China	87.8	95.2	-7.4	85.3	91.3	-6.0	87.5	94.5	-7.0
Eastern Europe	42.0	39.9	+1.5	37.5	38.6	-1.2	38.6	39.3	-1.1
Other W. Europe	4.5	3.4	+8	4.1	3.5	+5	4.2	3.6	+6
Brazil	1.9	6.3	-5.4	4.3	6.8	-2.5	3.8	6.8	-3.1
Mexico	4.2	4.4	-4	4.4	4.7	-2	4.5	4.9	-2
Other Latin Am.	2.0	8.6	-6.7	2.1	8.6	-6.7	2.2	9.0	-7.0
Japan	.7	6.3	-5.3	.9	6.3	-5.2	.8	6.3	-5.3
India	45.5	43.1	0	44.2	43.9	+5	47.0	46.1	+4
South Korea	--	3.0	-3.1	--	3.0	-2.9	--	2.8	-2.7
Indonesia	0	1.4	-1.4	0	1.4	-1.4	0	1.5	-1.5
Other Asia	16.8	25.1	-7.9	17.5	24.7	-7.8	19.6	26.5	-7.1
Egypt	1.8	8.5	-6.6	1.9	8.5	-6.7	1.9	8.7	-7.0
Morocco	2.0	4.2	-2.5	2.1	4.2	-2.0	3.3	4.5	-1.4
Other N. Afr./ME	9.9	25.4	-15.0	12.9	26.0	-12.9	12.2	27.2	-15.3
Other Africa	3.3	8.5	-5.5	3.1	8.1	-4.5	3.7	8.5	-4.9
Residual	.5	.2	-1.1	.1	.3	-5	.2	.2	-1.5
World	515.7	497.7		502.1	494.3		504.4	501.3	

Trade on July-June years. -- = negligible. F = forecast.

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil	Soymeal 44%	
	U.S. 1/	Arg. 2/	Can. 3/	Aust. 4/	U.S. 5/	Arg. 2/	U.S. 5/	U.S. 6/	U.S. 6/	Hamburg 7/
Dollars per metric ton										
1977	105	100	116	113	98	93	271	524	212	240
1978	131	126	134	119	105	102	259	565	189	226
1979	162	159	171	142	118	117	278	610	160	254
1980	176	203	192	175	129	159	272	522	217	271
1981	176	190	194	175	135	139	272	464	223	269
1982	161	166	165	160	110	109	233	404	197	233
1983	158	138	167	161	137	133	269	518	222	255
1984	153	135	166	153	138	132	271	678	184	210
1985	137	106	173	141	114	103	214	596	140	171
1986										
Jan.	133	108	189	140	108	100	210	447	168	197
Feb.	131	102	183	133	105	92	207	404	169	201
Mar.	136	97	189	139	101	87	208	384	180	210
Apr.	138	96	187	137	102	86	205	389	173	205
May	128	90	185	131	106	90	205	391	174	199

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 3 yellow, f.o.b. Gulf ports. 6/ Decatur. 7/ F.o.b. ex-mill.

prices, many importers have limited foreign exchange reserves, and others continue to produce at near record.

After six consecutive increases, the major foreign competitors' (Argentina, Australia, Canada, and the EC) exports declined about 5 million tons to 55 million in 1985/86. The decrease was largely due to weak world demand and poor 1985/86 harvests in Argentina and Canada, which limited both the quantity and quality of wheat available for export. Although 1986/87 production is expected to rebound in Argentina and Canada, the major competitors' exports are not expected to increase.

Sharply reduced prices and various export promotion programs may enable the United States to capture a large share of the expected growth in world wheat trade. The new U.S. loan rate, which became effective June 1, will permit U.S. prices to adjust more freely to world supply and demand conditions. The weaker dollar will also help in some markets. Many recent sales of hard red winter wheat have been \$105 to \$115 per ton, down from last year's \$130 to \$140, but competitors such as France continue to exhibit a willingness to undercut these prices in many markets. Export sales for the new crop are already about 1 million tons ahead of last year's pace, mostly a result of sales under the Export Enhancement Program (EEP). The U.S.

export forecast for 1986/87 is 30.5 million tons, up 5.5 million from 1985/86.

Record Foreign Rice Production Expected

The world rice outlook for 1986/87 is for continued large supplies, modest growth in import demand, and lower prices. Production is forecast at a record 320 million tons (471 million, rough basis), up 4 million from last year and 2 million more than the 1984/85 record. Foreign consumption in 1986/87 is expected to rise 5 million tons to 316 million, equaling anticipated foreign production.

Rice trade in 1986 is forecast at 11.8 million tons, up more than 300,000 from 1985. Competition among the major exporters will likely intensify because of lackluster growth in world import demand and changes in U.S. rice policy. Thailand, the world's largest exporter, may export 3.9 million tons, down about 100,000 from 1985. This decline may result from increased competition with the United States in high-quality markets, and from the Nigerian Government's decision to ban rice imports.

U.S. Rice Regains Competitive Position

During 1985, the Houston price of No. 2, 4-percent broken rice averaged \$409 per ton, and was about 80 percent greater than the

Rice: Production, consumption, and net exports

Country	1984/85			1985/86 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million metric tons						
Major exporters						
U.S.	4.4	1.9	1.8	4.4	1.9	2.1
Thailand	12.3	8.2	4.0	12.7	8.3	3.9
Pakistan	3.3	2.4	1.0	3.0	2.2	.9
China	124.8	123.9	.9	117.9	117.1	.8
India	58.6	57.0	.2	61.0	60.3	.2
Burma	9.3	8.8	.5	9.3	8.7	.6
Japan	10.8	10.2	0	10.6	9.8	0
Italy	.7	.3	.4	.7	.3	.4
Austr.	.6	.1	.4	.5	.1	.4
Major importers						
Indo.	25.9	25.2	+4	26.5	26.2	+3
S. Korea	5.7	5.5	0	5.6	5.6	0
Bang.	14.6	14.9	-.3	15.2	15.4	-.2
Vietnam	10.0	10.4	-.4	9.8	10.3	-.6
Other						
Asia	17.3	18.7	-1.5	17.8	19.0	-1.0
USSR	1.8	1.9	-.1	1.8	1.9	-.1
Brazil	6.1	6.6	-.4	6.1	6.7	-.8
Other						
Latin Am.	4.8	4.6	+3	4.9	4.8	-.2
Iran	.9	1.5	-.6	.9	1.7	-.8
Other N.						
Afr./ME	1.8	3.7	-1.8	1.8	3.7	-2.0
Malagasy	1.4	1.5	-.1	1.4	1.5	-.2
Nigeria	.9	1.5	-.5	1.0	1.3	-.1
Other						
Africa	1.9	4.0	-2.0	2.1	4.2	-2.1
Residual	.7	1.8	-2.2	.7	2.9	-1.5
World	318.6	314.6		315.7	313.9	

Trade on calendar years; calendar 1984 corresponds to 1983/84. F = forecast.

average price of Bangkok 100-percent Grade B. By mid-April, however, the effects of the Food Security Act of 1985 were being felt. The marketing loan provision allows U.S. rice growers to pay back their farm loans at a much lower rate—for 1985/86, a rate equal to the world market price. The marketing loan provision became effective on April 15, 1986, and U.S. export prices immediately began falling. The Houston price in mid-June had declined to about \$220, compared with the Thai price of \$178, reducing the price ratio to 1.24.

The new U.S. rice policy will have less effect on exports by the other major exporters—Burma, China, and Pakistan. These exporters emphasize sales of lower quality rice in addition to Pakistan's basmati varieties.

U.S. rice exports are forecast to increase from 1.9 million tons in 1985 to 2.2 million in 1986. While only 416,000 tons were exported

in the first 4 months of 1986, as many customers awaited lower prices, increased export activity is expected during the remainder of the year. The marketing loan program has given U.S. exporters an opportunity to regain commercial markets in places where the U.S. share had been declining rapidly, such as Western Europe, Saudi Arabia, and South Africa. The lower prices also make it possible to sell U.S. rice in new markets such as Brazil and Papua New Guinea. [Scott Reynolds (202) 786-1691]

Coarse Grains

Global Supplies and Consumption Soar

Record foreign coarse grain production in 1986/87, coupled with large carry-in stocks, abundant supplies of some non-coarse grain feeds, and limited growth of animal numbers, will lead to a modest increase in world import demand for feed grains. Global trade (excluding intra-EC) is forecast at 90.2 million tons, about 6 million (7 percent) above 1985/86. As 1986-crop prices fall in September, U.S. sales are expected to recover from the depressed 1985/86 level, but will remain well below those of earlier years.

Foreign 1986/87 coarse grain production is forecast at 580 million tons, up 11 million from a year ago. Although production losses are projected for some competitors (notably Canada, Australia, and Argentina), major gains are forecast for the Soviet Union and China, up 2 million and 10 million tons, respectively.

Expanding worldwide production of pork and poultry and very low grain prices will raise coarse grain use almost 25 million tons to a record of almost 800 million. Foreign use, at a record 628 million tons, will be up over 3 percent. U.S. consumption will show a somewhat smaller gain. In spite of the larger consumption, record foreign production and the second largest U.S. crop in history mean that world supply will continue to exceed use, boosting ending stocks about 17 million tons. The increase, however, is significantly smaller than those of the last several years.

Imports Show Modest Growth

Global trade in 1985/86 is suffering significantly from financial constraints in

Coarse grains: World production, consumption, and net exports

Country	1984/85			1985/86			1986/87 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	237.7	164.2	54.7	274.3	166.5	38.5	235.4	169.7	48.5
Canada	22.0	18.6	2.8	24.7	18.7	4.1	23.3	19.1	4.7
Australia	8.6	2.9	7.3	7.8	2.7	5.8	6.9	2.6	4.0
Argentina	18.6	7.5	10.6	18.3	6.9	11.9	17.7	7.0	10.4
Thailand	4.7	1.3	3.4	5.5	1.2	3.8	5.2	1.4	3.6
South Africa	8.7	6.9	-2.2	8.9	7.4	.9	9.9	7.5	2.0
Major importers									
USSR	86.0	110.9	-27.3	94.0	106.0	-14.0	96.0	110.0	-15.0
China	95.4	89.9	+5.6	83.9	79.3	+4.5	94.3	90.6	+3.7
Eastern Europe	72.9	72.7	-.3	68.7	73.5	-4.3	68.9	69.2	-.8
EC-12	89.7	85.7	-1.6	87.7	86.3	+2.1	83.6	84.3	-.1
Other W. Europe	13.9	12.8	+6	13.1	12.3	+1.2	12.9	12.5	+5
Brazil	22.5	22.4	-.4	19.7	22.6	-2.2	23.1	23.3	-.6
Mexico	14.5	18.8	-4.2	14.2	18.5	-3.2	13.3	18.9	-5.6
Venezuela	1.1	2.6	-1.6	1.5	2.2	-.8	1.6	3.1	-1.5
Other Latin Am.	8.5	10.2	-1.8	8.2	10.1	-1.5	8.7	10.8	-2.2
Japan	.4	21.3	-20.7	.4	21.2	-21.0	0.4	22.5	-22.1
Taiwan	.3	4.4	-4.1	.3	4.5	-4.1	0.3	4.7	-4.3
South Korea	.9	4.5	-3.5	.7	5.0	-3.9	0.6	5.0	-4.4
Other Asia	47.2	50.7	-2.6	44.9	47.9	-2.1	46.9	49.0	-2.3
Egypt	4.4	7.0	-1.7	4.4	6.5	-1.8	4.7	6.6	-2.0
Iran	1.3	2.7	-1.3	1.3	2.8	-1.5	1.5	3.0	-1.5
Israel	.1	1.1	-1.0	--	1.2	-1.1	--	1.1	-1.1
Other N. Afr./ME	14.7	25.4	-11.2	20.7	30.6	-10.0	20.4	31.9	-11.9
Other Africa	33.7	34.7	-1.8	38.1	38.4	-.1	38.4	40.1	-1.2
Residual	.7	.5	+3	1.2	.3	-1.2	.8	.5	-.8
World	808.5	779.7		842.5	772.6		814.8	794.4	

Production on crop year basis, trade on October-September year. Includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. -- = negligible. F = forecast.

many developing countries, strong competition from nongrain feed ingredients, and abundant supplies in many coarse grain importing nations. Soviet purchases, for example, fell from a record of almost 27 million tons in 1984/85 to less than half that amount as production increased.

In 1986/87, financial and importer conditions are not likely to change greatly. However, lower export prices will certainly make coarse grains more competitive. Also, there will be some pent-up demand from purchasing delays during the summer quarter of 1985/86 in anticipation of declining prices this fall, allowing global trade to expand. Further, sharply reduced U.S. prices will likely lead to an expansion in U.S. exports and boost the U.S. share of the world market.

While U.S. shipments to a number of markets will rise, prospects for U.S. coarse grain sales to the EC remain depressed. The use of feed wheat and domestic barley in livestock feed rations continues to increase, permitting expanded industrial use of domestic

corn. As a result, EC corn imports are low and are expected to fall even further as Spain and Portugal enter the Community. Spain is likely to follow the EC pattern, increasing use of domestic grains and nongrain feed ingredients such as Thai manioc and soybean meal.

Exporters Respond to Lower Prices

In 1986/87, competitor exports of coarse grain are forecast to decline about 2.5 million tons from this year. Argentine exports are expected to drop about 1 million tons from the high of 1985/86 but remain above those of earlier years. In Australia, sharply reduced prices will cause some crop area shift from barley to wheat. Wheat farmers receive a guaranteed minimum price, but not barley producers. Australian sales, estimated at about 4 million tons in 1986/87, will be sharply reduced and are the lowest since the drought-reduced 1982/83 marketings. China's sales to Japan and the Soviet Union continue high. Future sales, however, are likely to diminish somewhat as the PRC expands the

domestic livestock sector and thereby increases demand for feed grains. [James Cole (202) 786-1691]

Oilseeds

World oilseed production in 1986/87 is expected to surpass this year's record as growth in foreign output offsets lower U.S. outturn. While the 1986/87 U.S. loan rate cannot be announced until August, the Food Security Act of 1985 limits the decline to 5 percent below 1985/86. This is small in comparison to the 25- to 30-percent drop in wheat and corn loan rates, and could induce larger foreign oilseed plantings. On the demand side, the protein meal sector may have to support the oil markets, which will continue to be weakened by large palm oil supplies.

U.S. Soybean Exports Could Fall

Larger soybean crops in major competitor countries will create more export competition for the United States, and 1986/87 U.S. exports are forecast at 21 million tons, slightly lower than this year. Also, large supplies of other oilseeds will limit sales of U.S. soybeans, because importers' expanding needs will be met by domestic production or imports of other meals or oilseeds. For example, in Korea, traditionally a strong market for soybeans, for the first time rapeseed imports for domestic use are being allowed, and Korea is likely to import more Canadian rapeseed.

The outlook for protein needs will depend heavily upon expansion in the global pork and poultry sectors. Also, the USSR will play a critical role as in the past several years. This year's large soybean shipments to the Soviet Union have boosted U.S. exports, and since it is official Soviet policy to use more protein meal in livestock rations, large imports are expected in 1986/87.

Other expanding markets for soybeans and soybean meal include Asia, the Middle East, and North Africa. The continued development of poultry sectors in all of these regions will enhance feed requirements. In 1986/87, the U.S. soybean exporter may have an advantage in Mexico, to the extent that purchases by the public sector (CONASUPO) must be made under credit. However, the steep drop in

Mexico's petroleum revenues has weakened the general economy and could lead to reduced soybean imports.

World and U.S. soybean trade prospects will depend to a large extent on EC import demands. The expanded European Community's oilseed crop production, particularly sunflowerseed, is expected to rise sharply. This, combined with greater domestic feed supplies, will limit the potential for soybean imports.

Soybeans and products: Production, consumption, and net exports

Country	1984/85			1985/86 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million metric tons						
Soybeans						
Exporters						
U.S.	50.64	28.03	16.28	57.11	28.71	21.23
Brazil	18.20	13.14	3.10	13.00	12.10	1.10
Arg.	6.50	3.86	3.29	7.30	3.70	2.90
China	9.69	1.59	1.05	10.51	1.62	.90
Importers						
EC-12	.16	12.37	-12.70	.34	12.76	-12.84
Japan	.24	3.79	-4.61	.23	3.97	-4.80
E. Eur.	.77	1.26	-.59	.57	1.15	-.65
Mexico	.55	2.00	-1.43	.75	1.93	-1.20
Taiwan	.01	1.20	-1.47	.02	1.25	-1.50
USSR	.47	1.13	-.85	.47	2.65	-2.40
Residual	5.31	5.38	-2.07	5.50	5.93	-2.74
World	92.54	73.75		95.80	75.77	
Soybean meal						
Exporters						
U.S.	22.25	17.67	4.46	22.69	17.10	5.63
Brazil	10.15	2.03	8.44	9.36	2.13	7.40
Arg.	3.08	.27	2.88	2.95	.28	2.65
Importers						
EC-12	9.82	18.00	-8.28	10.08	18.03	-7.73
E. Eur.	1.00	4.43	-3.42	.91	4.43	-3.56
USSR	.86	1.41	-.55	2.06	2.66	-.60
Japan	2.92	3.12	-.09	3.06	3.24	-.16
Mexico	1.46	1.50	-.08	1.41	1.52	-.10
Residual	6.56	10.74	-3.36	7.15	11.41	-3.53
World	58.10	59.17		59.67	60.80	
Soybean oil						
Exporters						
U.S.	5.20	4.50	.75	5.29	4.49	.59
Brazil	2.46	1.56	.84	2.27	1.63	.55
Arg.	.64	.07	.50	.63	.08	.55
EC-12	2.22	1.37	.80	2.29	1.40	.85
Importers						
India	.15	.57	-.40	.17	.49	-.22
Pak.	0	.19	-.17	0	.20	-.20
E. Eur.	.22	.40	-.19	.20	.39	-.19
Iran	.02	.34	-.32	.02	.30	-.27
Morocco	0	.13	-.12	0	.13	-.13
Residual	2.42	3.99	-1.69	2.77	4.06	-1.53
World	13.33	13.12		13.64	13.17	

For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. F = forecast.

Ample Vegetable Oil Supplies

Global vegetable oil stocks at the end of 1985/86 will be more than double a year earlier, mainly due to large gains in Malaysia's palm oil output. Even if the growth in palm oil slows, large 1986/87 oilseed supplies and high beginning stocks will mean weak prospects for soybean oil. In addition, the major importers of vegetable oils, India and Pakistan, will expand oilseed output in 1986/87, adding to domestic supplies and diminishing import needs. With foreign exporters offering soybean oil at a substantial discount from the U.S. price, U.S. soybean oil exports will continue depressed. The narrow price differential among various oils, especially premium oil such as sunflowerseed and peanut, is brightening export prospects. [Jan A. Lipson (202) 786-1691]

Meat

World meat production and trade are forecast to increase in 1986 but at a slower pace than last year. While pork and poultry output is rising, beef is declining. Burdensome beef stocks are, however, assuring ample supplies. Measures to reduce EC supplies through increased exports are pressuring world prices and altering trade flows. Exports of pork are also expected to increase in 1986, but poultry may continue to decline.

Beef Output Down, Exports Up

Because of declines in the EC-10, world beef output is forecast to drop slightly, but exports will continue expanding. The EC and United States have sold beef at below normal trade prices. These temporary measures are being taken to clear larger supplies generated by reducing dairy herds in the EC and the United States.

Brazil To Import Beef

In 1985, the EC sold the USSR 175,000 tons of beef from intervention stocks at \$262 per ton for forequarters and \$578 per ton for hindquarters. Similarly, the United States has announced a 90,000-ton sale of beef to Brazil at \$655 per ton. The United States is required under the Food Security Act of 1985 to export 200 million lbs. of meat to ease the effects of the Dairy Termination Program.

Beef and veal production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	10,748	10,929	10,996	10,920
Canada	1,036	997	1,020	975
Mexico	1,229	1,323	1,379	1,423
Argentina	2,384	2,558	2,740	2,700
Brazil	2,400	2,300	2,400	2,400
France	1,764	1,936	1,845	1,704
Germany, Fed. Rep.	1,494	1,616	1,574	1,626
Italy	1,149	1,182	1,210	1,170
Total EC-10	6,856	7,405	7,257	6,980
Eastern Europe	2,418	2,471	2,426	2,406
USSR	7,011	7,244	7,400	7,400
Australia	1,412	1,248	1,360	1,375
Other	5,627	5,448	5,502	5,534
Total	41,121	41,923	42,480	42,113

P = preliminary. F = forecast.

Although Brazil is a major beef exporter, several internal factors prompted its announced intention to import 250,000 tons. To reduce inflation, the Brazilian Government has instituted wage and price controls, including the retail beef price. Consequently, domestic producers are withholding cattle from slaughter, believing that packers are offering too low a price and are taking an unfair portion of the marketing margin. The inventory buildup is also being encouraged by monetary and land reforms, which have mandated a use-or-lose-it attitude by producers and government officials. To insure adequate supplies and hold down prices during the June-September dry season when production falls, the Government is importing up to 250,000 tons of beef to use as buffer stocks. Buffer stocks have historically been built up for the dry season via domestic purchases during the peak slaughter period and imports of about 20,000 tons.

Modest Growth in Pork Expected

Pork production surged 5 percent last year because of gains in China. With a more modest growth in Chinese pork output and a decline in the United States, 1986 world pork production may only rise 1 to 2 percent. Reduced feed prices and improved returns are helping to boost EC output. Although the Netherlands has instituted measures to limit growth because of pollution concerns, the measures have not yet limited expansion, and favorable 1985 returns are encouraging increased output.

Pork production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	6,894	6,719	6,716	6,574
Canada	852	863	900	887
Mexico	1,136	942	864	915
Germany, Fed. Rep.	2,722	2,735	2,755	2,840
France	1,624	1,625	1,609	1,633
Netherlands	1,201	1,258	1,340	1,375
Total EC-10	9,696	9,739	9,887	10,121
Eastern Europe	6,583	6,473	6,580	6,564
USSR	5,760	5,927	5,800	5,850
China	13,161	14,447	16,508	17,000
Japan	1,429	1,424	1,531	1,485
Other	5,230	5,068	5,242	5,311
Total	50,741	51,602	53,956	54,707

P = preliminary. F = forecast.

After several years of serious overproduction, Taiwan's output may be leveling. Taiwan has been supplying an increasingly larger share of Japan's pork market.

Poultry Output Up, Exports Down

A 3-percent increase in poultry meat output is likely this year. Although import demand is down, lower feed prices, increased demand because of higher prices for other meats, and health concerns continue to boost poultry meat output.

Import demand in the Middle East has dropped markedly because of a concerted effort in some countries to increase domestic production. Reduced oil prices are also affecting imports. Demand for poultry has

Poultry production

Country	1983	1984	1985 P	1986 F
Thousand metric tons				
United States	7,151	7,427	7,865	8,361
Canada	537	558	603	622
Mexico	538	646	681	623
Brazil	1,580	1,398	1,530	1,590
France	1,284	1,247	1,277	1,277
Total EC-10	4,293	4,275	4,326	4,369
Eastern Europe	1,835	1,928	1,965	1,970
USSR	2,596	2,686	2,800	2,900
Japan	1,257	1,309	1,363	1,409
Other	3,742	4,010	4,177	4,287
Total	23,529	24,245	25,310	26,131

P = preliminary. F = forecast.

been up in some Asian markets, particularly as the popularity of fast-food restaurants featuring chicken has increased. [Linda M. Bailey (202) 786-1691]

Cotton

Low prices will hold world cotton production down in 1986/87 and push consumption and trade up. Prices are expected to continue falling because of the world's huge supply and effects of the new farm legislation. The U.S. marketing loan program, which takes effect August 1, will make U.S. prices competitive again and triple U.S. exports. While low prices will increase importer demand, competition among exporters will be intense. World stocks, which set another record in 1985/86, are likely to level in 1986/87, but are not yet expected to show a significant drop.

U.S. Exports To Rebound

U.S. exports are projected to triple in 1986/87 from 1985/86's extremely low 2 million bales. The U.S. share of world exports is expected to increase from the current 40-year low of 10 percent to 28 percent, almost equal to its traditional 30-percent average. More competitive prices are the driving force. After the cotton provisions of the new U.S. farm legislation take effect on August 1, the huge U.S. stocks now priced out of the market will become available at world market prices. This will intensify export competition, and exert continuing downward pressure on prices.

U.S. exports in 1985/86 will fall to one-third of 1984/85's 6.2 million bales. The U.S. loan rate has prevented U.S. export offerings from falling below the equivalent of about 70 cents per pound delivered to Northern European ports during the past year while the average world price tumbled to 45 cents. Despite lower world prices, world exports have also dropped in 1985/86, falling nearly 1 million bales or 4.5 percent. Trade is down because importers are minimizing 1985/86 purchases in anticipation of still lower prices in 1986/87.

Excess Supply May Stabilize in 1986/87

Production in 1986/87 will continue to fall, but the expected 3.6-percent decline is

Cotton: Production, consumption, and net exports

Country	1984/85			1985/86 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million 480-lb. bales						
Major exporters						
U.S.	13.0	5.5	6.2	13.4	6.3	2.0
USSR	11.9	9.5	2.4	12.1	9.6	2.6
Pakistan	4.6	2.3	1.2	5.7	2.4	2.2
Egypt	1.8	1.4	.5	2.1	1.4	.6
Turkey	2.7	1.8	.7	2.4	2.0	.6
Cent. Amer.	.8	.2	.5	.6	.2	.5
Sudan	.9	.1	.6	.9	.1	.8
Brazil	4.2	2.7	.3	2.8	2.8	.7
Mexico	1.2	.6	.6	1.0	.7	.4
India	7.9	7.1	.1	8.4	7.3	.2
China	28.7	15.5	1.1	19.1	17.5	1.6
Major importers						
W. Europe	.9	5.9	-4.8	1.1	5.8	-4.5
Japan	0	3.2	-3.1	0	3.0	-2.9
E. Europe	.1	3.7	-3.8	.1	3.7	-3.7
S. Korea	--	1.6	-1.6	--	1.7	-1.5
Taiwan	0	1.2	-1.3	0	1.2	-1.1
Hong Kong	0	.7	-.7	0	.6	-.8
Residual	8.9	6.4	+1.1	8.4	6.6	+2.3
World	87.6	69.4		78.1	72.9	

Year beginning August 1. Consumption is mill use.
-- = negligible. F = forecast.

much smaller than 1985/86's 11 percent. Much of the drop will occur in the United States, as foreign production is likely to show little change. Planting of the 1986/87 crop has begun in the Northern Hemisphere. Based on planting intentions, area in the United States is estimated down sharply. Foreign area, however, is expected to remain about the same.

World consumption will rise in 1986/87, but growth is projected to slow to only 2.7 percent, compared with 5.5 percent in the previous season. Importers' purchases will rise significantly to satisfy pent-up demand, rebuild depleted stocks, and accumulate extra stocks of very low priced cotton in some countries.

The drop in production and the rise in consumption will not be nearly enough to offset the world's oversupply. However, the situation will improve somewhat, as stocks at the end of 1986/87 are expected to be 47 million bales, slightly below the beginning levels. Despite some possible increase in importers' ending stocks, most stocks will still be carried by major producers, such as the United States and China. [Carolyn L. Whitton (202) 786-1691]

Cocoa and Chocolate

Cocoa Supplies Continue Abundant

World cocoa bean production for 1985/86 (October/September) was forecast on February 20, 1986, at 1.88 million tons, down 3 percent from the previous year's crop. Since that time, USDA has revised its forecast for Ecuador, Ghana, and Nigeria based on Attache reports from those countries. The next USDA world cocoa bean production estimate is scheduled for release October 16, 1986.

The world cocoa grind is forecast at 1.80 million tons in calendar 1986, only marginally higher than last year's 1.795 million. The large grind reflects abundant cocoa supplies and lower bean prices. The forecast suggests 1985/86 cocoa stocks will increase around 48,000 tons over 1984/85. This is the second consecutive increase following stock drawdowns in 1982/83 and 1983/84.

The 1985 cocoa grind increased in West Germany, the Netherlands, the United Kingdom, and the Soviet Union. (Except for the United States, whose grind declined 6.4 percent, 1985 data are incomplete for most large processing countries.) The United States imported 270,333 tons in 1985, up nearly 40 percent from 1984. Imports of sweetened and unsweetened chocolate and cocoa butter also increased. This suggests that U.S. cocoa and chocolate supplies will be relatively plentiful and reasonably priced in 1986.

Cocoa Prices May Decline Again in 1986

New York cocoa bean prices (average of daily closing prices of the nearest 3 active futures trading months on the New York market) averaged 99 cents a pound in 1985, down from \$1.06 in 1984. Prices averaged 91 cents a pound for the first 5 months of 1986,

Cocoa bean production, revised estimates			
Country	1984/85	1985/86	
		Feb. est.	Current
Thousand metric tons			
Ecuador	128	110	85
Ghana	175	200	212
Nigeria	150 1/	115	95 1/

1/ Does not include cocoa marketed through Benin which, in recent years, has varied between 10,000 and 20,000 tons.

and seem likely to average under \$1.00 a pound for the year, possibly close to 90 cents. Cocoa prices in the last half of 1986 will reflect the prospective 1986/87 crop, and the progress of negotiations this summer to review the International Cocoa Agreement. [Fred Gray (202) 786-1769]

REGIONAL DEVELOPMENTS

Western Hemisphere

Mixed Picture for U.S. Agriculture

U.S. producers entered the 1986 planting season facing the same conditions as in the last 2 years--large crop and livestock supplies, low prices, and weak domestic and export demand. Many farmers are still experiencing high debt payments and declining assets. Farm incomes are being supported by large government payments. On the other hand, several factors have emerged that bode well for the longer-term outlook. Lower interest rates, falling oil prices, and a weaker dollar will lower production expenses at home and help boost export demand abroad. In addition, the 1985 Food Security Act, by taking land out of production and lowering market prices, is designed to help reduce price-depressing supplies.

U.S. Crop Production To Fall

Area planted to major crops will decline this year as farmers respond to the provisions of the new farm legislation. The winter wheat harvest is already underway and may be the smallest since 1978. Area planted to coarse grains, cotton, rice, and soybeans is also expected to decline, and production will likewise fall from last year. However, carryin stocks of grains, soybeans, and cotton are record high and supplies in 1986/87 will still be exceedingly large.

As usual, weather remains the uncertain variable affecting production. Spring planting conditions in the United States were mixed. May planting was ahead of normal for corn, soybeans, and cotton, but lagged last year's pace for spring wheat. Cold, wet weather in the Northern Plains slowed planting and germination. Dryness in the Southeast delayed planting and stressed young plants. Pasture and range feed conditions are generally good.

U.S.-Canada Free Trade Discussions Set

On April 23, the Administration received authority from the Congress to enter into negotiations with Canada on establishing freer trade. Preliminary discussions to set the negotiating agenda have already been held. These negotiations run counter to growing world protectionism and escalating trade disputes, including numerous complaints on both sides of the U.S.-Canadian border. The extent of the negotiations is unknown, but they will no doubt be lengthy and complex, especially if agriculture is included, because of the many policies and programs involved. Although agricultural products account for only a small share of U.S. trade with Canada, they represent a large share of trade disputes. Canada is highly dependent on the U.S. market--about three-fourths of Canada's trade is with this country--and had over a \$20-billion trade surplus with the United States in 1985.

U.S. Food Security Act Affects Canada

As Canadian farmers began seeding crops in May, they were already experiencing effects from the 1985 U.S. farm act. In early April, the Canadian Wheat Board (CWB) announced reductions in 1986/87 initial prices of 19 percent for wheat, 27 for barley, and 25 for oats. (The initial price is a guaranteed minimum price a farmer receives upon delivery of grain to the CWB.) The drops parallel the fall in 1986/87 U.S. loan rates for wheat and coarse grains.

The lower prices will affect Canadian plantings, but other factors will also have an impact. According to a preliminary seeding intentions report, taken before the initial price announcement, Canadian major-crop area will remain about the same as last year. The report indicates that a 2-percent increase in wheat area will offset a 2-percent decline for barley area and a 6-percent drop for rapeseed. However, the initial price announcement may result in some switching from grains to oilseeds. Moisture conditions in western Canada are the best in 2 years. In fact, excessive precipitation hampered planting in some areas. This situation could also force some farmers to turn to rapeseed, which matures faster than wheat or barley.

To help offset the price declines, the Canadian Government recently announced several farm-aid measures:

- o a Can\$580-million interim payment to western grain and oilseed farmers from the Western Grain Stabilization Fund in 1985/86;
- o a rebate on federal sales and excise taxes on fuel used for farm purposes;
- o an increase in the domestic wheat price that would transfer income from consumers to producers;
- o a slight decrease in rail freight rates that farmers pay for shipping grain and oilseeds to export positions.

Caribbean Sugar Crop Weather-Damaged

The 1986 Cuban sugar crop is expected to be 10 to 20 percent below the record 1985 crop of 8.1 million tons, and the Dominican crop will be down another 200,000 tons to less than 800,000. Anything short of ideal planting and growing conditions in 1986 will further delay the regeneration of the Cuban cane fields, and production may not fully recover before 1988.

Bad weather in 1985 paradoxically led to a bumper sugar crop, while normal weather in 1986 has produced a disastrous crop. Spring drought in the northern Caribbean gave Cuban producers time to complete the 1985 harvest and exceed production goals by cutting immature cane that normally would have been left until the following season. But the drought delayed the regrowth of the next year's crop and reduced the supply of mature cane. A fall hurricane brought needed rain for the new crop but damaged growth for the 1986 Cuban harvest.

Caribbean governments' attempts to increase production of nontraditional crops for export appear to be gaining momentum. Production of nontraditional crops, including winter fruits and vegetables for the U.S. fresh market, is expected to grow slowly but steadily in all Caribbean Basin Initiative (CBI) countries. Nevertheless, Caribbean agricultural output is not expected to show a significant upturn under the new policies before 1987 or 1988. Thus, the demand for U.S.

agricultural products is expected to remain strong throughout the remainder of the decade, as per capita food production is not expected to turn around soon.

Andean Crop Production Up in 1986

The Andean region's 1985/86 crop prospects are generally good as the region recovers from the 1985 drought. Although production gains are a major factor affecting U.S. exports to this \$1.2-billion market, other factors are also important. Some countries have devalued their currencies, increasing costs of imported inputs and commodities, even though U.S. export prices have declined. The United States also faces keen competition from other suppliers.

The region's wheat production rose 12 percent in 1986 to 1.6 million tons, as Chile, with three-fourths of production, continues its drive toward self-sufficiency. Rice production declined slightly to 3.6 million tons. Peru's harvest declined for the second year because of lack of rain, and it is importing rice before the main crop is harvested in July.

The major feed grains, corn and sorghum, will register increases as they recover from last year's drought. Venezuela harvested a record corn crop last fall, mostly because of increased area, and is not importing corn. Colombia and Ecuador are expecting record coarse grain crops.

Sugar and coffee production are up in the region. Ecuador has had favorable rainfall for cane. Venezuela is increasing sugar production as it strives to reach self-sufficiency. In Peru, however, the drought that affected rice production also stressed sugar cane. Peru will import some sugar, but will also meet its U.S. sugar import quota. Colombia, Peru (with a record coffee crop), and Ecuador all have ample coffee supplies to take up the export slack caused by Brazil's drought.

Production of oilseeds, cotton, and potatoes will decline in 1986. Oilseed production is down 3 percent, mostly because of Colombia's lower cottonseed crop. Palm oil production continues to expand, especially in Ecuador. Potato harvests were down throughout the region in early 1986. Colombia

and Ecuador suffered hard frosts; Peru had production shortfalls related to lack of farm credit and sharply increased input costs; Chile reports extremely low planted area. Cotton production is down slightly in Colombia because of declining world prices and competition for land from more profitable crops.

Argentine Agriculture and the Debt Crisis

Argentina's \$50-billion foreign debt is equivalent to 70 percent of GDP. Interest on the debt equals nearly 50 percent of export earnings, and almost 100 percent of the balance of payments surplus. The country is in an economic cul-de-sac--debt servicing requires economic growth, but economic growth requires savings and investment, which are being completely absorbed by interest payments to overseas banks. Austerity, protectionism, export enhancement, and privatization are being used to generate savings and investments, but the requirements of debt servicing may be more than the economy can support.

Argentina's predicament has forced policymakers to reevaluate economic strategies, and may force the Government to realign itself on the side of agriculture. Traditionally, Argentina has subsidized industrial development by taxing the agricultural sector, but this has not succeeded. Most state-run industries continue to run deficits, while agriculture continues expanding, despite heavy taxation.

Argentina's agricultural sector and grain marketing infrastructure are grossly undercapitalized. Agricultural-sector investments would go a long way toward spurring exports and resolving the economic situation. The Government is already moving toward agricultural reforms, for example, by reducing taxes on agricultural inputs. The most important initiative being discussed is the replacement of agricultural export taxes with land-based taxes.

In 1986, the World Bank approved a \$350-million agricultural loan to Argentina, designed to help make the transition from agricultural export taxes to a land-based tax system. Export taxes have been a disincentive to increases in agricultural production.

Conversely, land taxes may spur crop production by forcing idle lands and pastures into cultivation and increasing the use of farm inputs. As export taxes are lowered during the transition, price transmission from world prices to domestic prices will be lessened, dampening producer response to world prices. [Carol Goodloe (202) 786-1663]

Western Europe

Western Europe's farmers are facing another year of declining incomes, following a 13.5-percent drop in EC farm income in 1985. Earnings from both crops and livestock have been jeopardized by weather, policy decisions, and trade developments.

Adverse Atmosphere

The northwestern parts of the continent, in particular the EC countries, suffered unseasonable coolness during late spring. Crop development was delayed, especially winter-sown grains. Conditions were also wetter than usual, even when a warming trend moved in. Yields for winter-sown grains had been expected to more than make up for static or slightly decreased acreage, but the spring outlook was uncertain.

At the same time, spring sowing was delayed, possibly reducing both acreage and yields from earlier expectations. Along the Mediterranean tier of Europe, however, spring rains relieved damaging drought in Spain, southern Italy, and Greece. Overall, grain output in Western Europe in 1986 should be above 1985, and second only to the record 1984 crop, but price developments are likely to cause a further slide in growers' real income.

The Soviet nuclear accident at Chernobyl has proved particularly distressing to Western European producers of horticultural commodities. Fresh produce became suspect because of possible radiation, and was the subject of many official cautions. Although the instructions were meant to be of limited duration, consumers' return to their usual produce purchasing habits may take longer.

Current circumstances have apparently strengthened some European wholesalers' interest in non-European processed fruits and vegetables. However, an EC ban on fresh food imports from Eastern Europe, in effect

through May 31, perhaps favored some EC growers.

Dairy farmers in most of Europe were similarly menaced by Chernobyl. Milk sales were jeopardized by official warnings against fresh milk consumption by children and pregnant women. Moreover, the already large stocks of surplus cheese suggest that the diversion of milk to cheese production (recommended because radiation should be negligible by the time of marketing) may not recoup lost earnings. Further, the radiation alert necessitated moving dairy animals indoors for feeding, increasing outlays for feed concentrates. Lower grain prices, resulting from EC price decisions and lagging exports, could reduce these costs somewhat, but probably not enough to offset those incurred by the delayed greening of pastures this spring.

Policy Disincentives

In the EC, expanded to include Spain and Portugal, budgetary costs are skyrocketing because of burgeoning stocks and a declining U.S. dollar that increases the cost of the EC's export subsidies. The EC Commission consequently was able to persuade member-country farm ministers to approve policy measures aimed at long-term adaptation of the agricultural sector to budget problems. The measures approved for implementation in 1986/87 are only a start on needed reforms, but will nonetheless undermine producer incomes in the year ahead.

The 1986/87 EC package consists mostly of price freezes and reductions, expressed in terms of the European Currency Unit (ECU). When converted into national currencies, most nominal prices paid to farmers will be up, because the "green" ECU used in farm commodity transactions was revalued relative to most member countries' currencies (the West German mark and the Dutch guilder were unchanged).

Inflation, however, is expected to cause a decline in real prices for virtually all commodities in all countries except Denmark. In addition, in the relatively high-inflation countries—Greece, Portugal, Spain, and Italy—input costs may erode income from farm sales.

The grain sector remains the EC's most troublesome in policy formulation. A

5-percent cut in feed grain intervention prices, including feed wheat, was adopted to help relieve the Community's grain surplus. Also, quality standards for wheat purchased under the intervention program are slated to be stiffened, lowering the average price received by farmers. Furthermore, farmers' operating funds will be reduced by delays in payments for grain delivered early to intervention stocks.

Despite growing EC awareness of its Mediterranean producers, southern Europe's crops were not favored in the 1986/87 price negotiations. The EC made some concessions by reducing prices less than originally proposed, as in the case of stone fruits, and by reducing cuts in the withdrawal prices on surplus fruits and vegetables. The buying-in price for surplus tomatoes has been cut 7.5 percent, rather than the proposed 5 percent.

EC livestock producers expect to be hurt by the recent policy decisions, but more so in subsequent years than in 1986/87. A decision on reform in the beef sector, particularly a proposal to replace the intervention support mechanism with direct aids, has been postponed until the end of the year. Agreement was reached to start a compulsory reduction in national milk delivery quotas on April 1, 1987.

Trade Daunted

Intra-Europe trade in fresh farm products was reduced by the Chernobyl incident, as countries hastened to guard against imports from possibly more contaminated places. The EC could not agree on a maximum allowable radiation level, but prohibited member governments from imposing stricter standards on other members' products than on their own. Ultimately, consumer response will be the decisive factor in determining the impact on intra-EC trade. It also remains to be seen how quickly European consumers will resume purchases of Italian wine in the wake of fatalities resulting from methyl alcohol.

Although initially nonrestrictive, quotas imposed by the United States on imports of EC white wine, chocolate, apple and pear juices, and beer could eventually deal producers a significant setback. The U.S. action came in retaliation for declines in U.S. exports of grain and oilseeds to Spain and Portugal as a result

of their accession to the EC. If the EC does not offer adequate compensation by July 1, 1986, tariffs will be increased on certain EC cheeses, vegetables, and spirits, as well as the items already subjected to quotas. [*Miles Lambert (202) 786-1716*]

USSR

The implications of the Chernobyl nuclear accident for Soviet agricultural production and trade in 1986/87 remain unclear. The reactor is located in the forest zone of the northern Ukraine, less than 10 miles from the border with the Byelorussian Republic. The surrounding region is primarily a feed crop and livestock production area. Sugarbeets are produced intensively south of Chernobyl, but sparsely to the north. Though grain is produced in the area around the reactor, particularly winter wheat, Chernobyl is outside the main grain-producing regions of the Ukraine and hundreds of miles from the milling-quality wheat regions of the southern and southeastern Ukraine.

The Soviets have abandoned agricultural activity within a 30-kilometer (18.6-mile) radius of the reactor. Even assuming all the land within this radius is agricultural, which it is not, this represents only a fraction of 1 percent of total Soviet agricultural land. Whether agriculture has been hurt in a wider region remains uncertain. Production of both milk and leafy vegetables was probably affected by elevated radiation levels well beyond the evacuated 30 kilometers, but to what extent and for how long is unclear.

At least equally uncertain is the potential impact on crops harvested later this year and on meat production. Even if agricultural activity is abandoned within a 100-mile radius of the plant, five times greater than the current radius, less than 3 percent of Soviet grain production would be affected, and about 4 percent of meat and milk production.

Sowing Progress Normal

Sowing of spring crops this year proceeded at an average rate. Area of major crops-- grain, cotton, sugarbeets, potatoes, feed crops, and sunflowerseed-- is expected to remain nearly unchanged from last year. Grain area is estimated at 118 million

hectares, virtually the same as last year's 117.9 million. Despite some official concern about the need to increase grain area, the commitment to maintain fallow land in crop rotations, and continued higher feed value yields for roughage crops in northern agricultural lands are expected to keep grain area below its 1976-80 average of 127.9 million hectares.

Smaller Livestock Growth Anticipated

Livestock inventories on state and collective farms had largely regained record levels by June 1, following the modest drawdown in 1984/85. The gradual recovery is expected to result in a 1- to 2-percent increase in livestock production in 1986. Meat production should increase toward the higher end of this range and milk toward the lower.

Such an increase is much less than called for by General Secretary Gorbachev for the latter half of the 1980's. The meat production goal for the end of the decade implies 4.2 percent annual growth between 1985 and 1990.

Reasons for the below-plan meat increase include below-plan gains in nongrain feed production, an unwillingness to increase grain for feed supplies, and continued quality problems in Soviet feed rations, most notably a shortage of protein. Reaching the livestock production targets may require larger imports of grain, oilseeds, and oilseed meal.

Hard Currency Shortage and Imports

Soviet hard currency earnings for 1986 are expected to decline by roughly \$5 to \$8 billion, because of lower oil prices and, possibly, lower oil export volumes. The earnings drop is likely to have an impact on the value of Soviet agricultural imports this year and into 1987. To the extent that import prices decline, import quantities will not be affected as strongly.

Grain imports during July- June 1985/86 are estimated at 29 million tons, below 30 million tons for the first time in 7 years. Imports during 1986/87 are estimated at 30 million tons, with virtually no increase in domestic grain use. Lower U.S. grain prices later this year could boost U.S. grain sales to the Soviets in the coming October-September agreement year. Thus far, Soviets have

purchased 6.8 million tons of corn, versus a minimum requirement of 4 million, but only 153,000 tons of the 4-million-ton minimum for wheat.

U.S. soybean exports to the USSR in this agreement year have reached 1.5 million tons. The rise in Soviet soybean imports cannot be explained by the domestic oilseed harvest, which actually increased in 1985. The larger imports only make a dent in the Soviet feed protein shortage, which has been calculated by the Soviets to be as large as 13 million tons of soybean meal equivalent. The soybean imports of early 1986 may represent a reversal in policy, favoring increased reliance on foreign protein supplies as a means of improving Soviet feeding efficiency. [Edward Cook (202) 786-1710]

Eastern Europe

Agricultural performance in 1985 was mixed. The agricultural sector performed rather well in the northern countries (Poland, Czechoslovakia, and the GDR), while production declined sharply in the south (Hungary, Yugoslavia, Romania, and Bulgaria) as the harsh 1984/85 winter was compounded by spring and summer drought. With more normal weather, agriculture should improve in 1986. The 1985 production shortfalls will increase U.S. agricultural exports to the region, but East European imports will continue to be limited by financial constraints.

Grain Production Down 7 Percent

Grain production in 1985 is estimated at 106 million tons, 7 percent below the 1984 record, but the region's third largest harvest. Wheat production fell 11 percent and coarse grain output was off 6 percent. The declines occurred in the drought-stricken south. The northern countries enjoyed record or near-record production after a fourth straight year of favorable weather. Because of the production decline, Eastern Europe will likely again become a net importer in 1986 after being a net exporter in 1985.

Little change is expected in grain production for 1986. Winter conditions have been favorable in the northern countries; however, continued dry weather harmed emergence of fall-sown crops in Bulgaria and delayed sowing in Yugoslavia. Moreover,

Yugoslav winter wheat area was below plan, as unfavorable prices reduced producer interest in wheat.

Oilseed Production Unchanged

Total 1985 oilseed production, at 4.7 million tons, was almost unchanged from last year. However, soybean production declined 21 percent due to dry weather in the major producing countries, Yugoslavia and Romania. Sunflowerseed production, which is more drought-resistant, fared considerably better, rising 1 percent. Rapeseed production rose 11 percent due to a 19-percent increase in Poland. Total oilseed production should rise in 1986, with increases in soybean and sunflowerseed production, but a decline in rapeseed.

Livestock Output Declines Slightly

Animal numbers fell throughout the region in 1985, due to drought and restrictions on feed imports. The poultry flock declined nearly 3 percent, and hog numbers an estimated 2.4 percent. Meat production was virtually unchanged from 1984. A 9-percent drop in Hungarian and Yugoslav output was offset by increases in Poland and Romania.

Only Poland is likely to show an increase in animal numbers, although the rise will by no means represent a recovery to the 1976-80 level. Meat production may fall in the southern countries, depending on the impact of the drought. But Poland should see another increase, and production in the GDR and Czechoslovakia will be at or slightly above current levels.

U.S. Exports To Continue Low

The value of U.S. agricultural exports to Eastern Europe fell 37 percent to \$479 million in 1985, the lowest since 1972. Grain exports, at \$113 million, were down 29 percent from 1984, while the value of U.S. soybean exports plunged 65 percent. Both declines resulted from falling demand, as the U.S. share changed little from recent years. U.S. exports in 1986 should rise in volume. In response to drought-induced shortfalls, Bulgaria and Romania have been importing far more corn than in previous years, while Yugoslavia and Romania are importing more soybeans.

However, because of falling U.S. prices, exports may not rise much in value.

Impact of Chernobyl Accident Uncertain

The most immediate impact of the accident at the Chernobyl nuclear power plant on Eastern Europe has been government warnings against the consumption of fresh vegetables and milk from grass-fed cows. The ensuing demand for nonfat dry milk has prompted a shipment to Poland of 1,182 tons from the United States and a similar amount from the EC. On May 31, the EC ban on food imports from Eastern Europe was replaced by a set of standards of acceptable radioactivity. However, the ban may have cost Eastern Europe \$200-\$300 million in hard currency earnings. [Nancy J. Cochrane (202) 786-1710]

Australia

Eastern Australia experienced unusually dry, hot weather in the early months of 1986. Lack of pasture encouraged livestock producers to take animals off grass earlier than planned. Summer oilseed and sorghum crops were reduced, but cotton benefited from the dryness. The autumn break of cool weather and rain arrived in May, allowing farmers to begin planting winter crops. However, optimum planting dates had passed for some crops, and lack of subsoil moisture will increase farmers' dependence on winter and spring rainfall.

Crop Area May Decline

Because of low prices, the area planted to crops likely will decline in 1986/87. Wheat area is estimated down 2 percent, and coarse grain and rice area may drop almost a tenth. Wheat is the only grain to receive a price guarantee. Oilseed area is expected to recover from 1985/86's weather-induced decline. Area planted to lupins and other legumes will continue to expand because of their importance to livestock production.

Wheat production may decline 1 million tons to 15.3 million in 1986/87. Exports are forecast at 14.5 million tons, indicating Australia's stocks may finally be reduced from recent burdensome levels. Coarse grain production is expected to decline about 12 percent, and exports may drop 17 percent to 4.4 million tons. Low prices should stimulate

Australian crop area

Crop	1984/85	1985/86	1986/87 F
Thousand hectares			
Wheat	12,078	11,959	11,750
Rice	126	108	100
Coarse grains (incl. triticale)	5,602	5,748	5,250
Cotton	183	173	150
Other oilseeds	525	472	530
Lupins & peas	740	821	970
Total	19,254	19,281	18,750

F = USDA forecast.

Source: Australian Bureau of Statistics.

some increase in domestic use. Cotton production may drop a fifth.

Drought Affects Cattle Outlook

The dry summer in Queensland and New South Wales caused producers to increase cattle slaughter early in 1986. The heavy slaughter coincided with the beginning of the U.S. dairy buyout program and an appreciation of the Australian dollar. The resulting price drop dampened producers' enthusiasm for raising beef cattle. Beef and veal production is estimated up 5 percent in 1985/86 and 2 to 3 percent in 1986/87. The buildup in cattle numbers may be slower than earlier anticipated.

Milk production leveled off in 1985/86 at just over 6 million liters, and output may decline next year for the first time since 1980/81. Exportable supplies of butter and skim milk powder likely will shrink. [Sally B. Byrne (202) 786-1611]

Japan

U.S. Farm Exports Decline

U.S. agricultural exports to Japan are forecast at \$5 billion in fiscal 1986, down from \$5.7 billion last year. Lower U.S. farm prices and reduced sales of coarse grain and cotton due to increased competition are responsible. The yen's appreciation has resulted in lower feed prices and increased profit margins for Japanese livestock producers, stimulating some growth in demand for coarse grain and oilseeds. However, U.S. grain exports have not benefited as fully as they might have, because of competition from other grain-supplying countries such as the PRC,

South Africa, and Argentina. Intense competition in the Japanese cotton market from the PRC, Pakistan, and Australia has cut into the U.S. market share, although sales are expected to improve later in the year, when U.S. prices become more competitive under the new farm legislation.

Japan To Reduce Milk Surplus

Japan's fluid milk consumption declined in 1985 for the first time in the post-war period. Dairy producer groups recently decided to cut milk production quotas for individual producers to reduce total output by 3.1 percent for the current Japanese fiscal year (April 1986-March 1987). To achieve this, dairy groups, with the guidance and financial support of the Ministry of Agriculture, Forestry, and Fisheries (MAFF), will accelerate the culling of old cows and will cull an additional 30,000 milk-producing cows. The program is to begin in June and be completed by the end of March 1987. In 1985, Japan's milk production totaled 7.4 million tons, of which 4.3 million tons was marketed as fluid milk.

As a result of the increased slaughter of dairy cows, Japan's beef production, derived chiefly from dairy steers and culls, is projected at 537,000 tons in 1986, up slightly from an earlier forecast but below last year's level. In 1985, beef output rose 4 percent to 555,000 tons, attributed to heavy slaughter of Wagyu cattle (the native breed).

A planned increase in beef imports, scheduled in the 1984 U.S.-Japan understanding on beef, and the stepped-up culling could ease rising producer prices for beef. At the end of March, MAFF decided to reduce producer support prices for dairy beef, pork, and milk for manufacturing use for Japan fiscal 1986. A large government budget deficit and lower feed costs due to the stronger yen were behind the reductions. [Lois A. Caplan (202) 786-1611]

Middle-Income East Asia

Despite expected accelerated economic growth in middle-income East Asia (South Korea, Taiwan, and Hong Kong), U.S. farm sales to the region are forecast at \$2.8 billion in fiscal 1986, around 10 percent less than last

year. Lower commodity prices and sharply reduced cotton exports more than offset increased exports of wheat, coarse grains, soybeans, and cattle hides.

U.S. To Recover Coarse Grain Market Share

Taiwan bought 200,000 tons of corn from South Africa in January-March 1986, and South Korea imported 355,000 tons of feed wheat from Australia, Canada, and the EC. Nevertheless, U.S. coarse grain sales to the region are expected to increase 13 percent in fiscal 1986 to 5.7 million tons, because of less competition from the PRC in the South Korean corn market.

U.S. Cotton Exports To Fall Sharply

Currency realignments are making the region's textile products more competitive, especially in Japan and Europe. But U.S. cotton exports to the region are not benefiting; because of higher prices, U.S. cotton exports are forecast to fall to 200,000 tons in fiscal 1986, 50 percent below 1985. An upturn in U.S. exports to the region is expected after July when U.S. cotton prices become more aligned with competitor prices under provisions of the 1985 Food Security Act.

Taiwan Sells 275,000 Tons of Rice

Beginning in early March, Taiwan reduced its rice export prices to conform to Thailand's. Consequently, by mid-April, Taiwan had sold about 275,000 tons, the 1986 limit agreed upon by Taiwan in a 1984 understanding with U.S. rice exporters. Subsidizing rice exports is one method Taiwan is using to remedy its surplus problem, in addition to decreasing production and subsidizing rice for feed. Because of declining world rice trade, Taiwan's exports dropped to only 38,000 tons in 1985. Taiwan rice exports will total about 300,000 tons in 1986, together with about 28,000 tons sold last year but exported this year. [Sophia Wu Huang (202) 786-1611]

China

Grain, oilseed, and cotton output is forecast to increase from 1985. China will continue to be a strong competitor in international cotton and rice markets, but its

coarse grain and oilseed exports are expected to be down marginally in 1986. Good supplies of domestically produced crops and limited quantities of foreign exchange will constrain agricultural imports.

Larger Grain Crop Forecast

Grain area has fallen each year since 1983. The declines in area and output in 1985 caused authorities to increase pressure on farmers to expand area to 110 million hectares this year. Grain yields are forecast to rise 3.5 percent over last year's weather-affected outturn. Total grain output is expected to reach just under 400 million tons, well above last year's 379 million, but below the record 407 million in 1984.

Wheat area is forecast to expand 370,000 hectares to 30.0 million. Expanded area and normal yield increases should produce a record harvest in 1986. However, dry weather in the North China Plains may reduce winter wheat yields, and the wheat crop may drop below the 1984 record of 87.8 million tons.

Many factors will affect wheat imports in 1986/87. Those tending to raise imports include rising per capita incomes, population increases, and an expected fall in wheat prices. Factors that may lower wheat imports include the forecast of a good crop this year and an acute shortage of foreign exchange. The various factors indicate imports for marketing year 1986/87 will rise to 7.0 million tons, up 1 million from a year earlier.

Rice output is forecast to rise above 1985 but be below the record 178 million in 1984. Rice exports likely will continue at last year's pace of about 1 million tons.

Coarse grain production should rebound from last year's weather-affected crop, and rise to 94.3 million tons, still below the 1984 record of 95 million. China's coarse grain exports are expected to reach 5.0 million tons in marketing year 1985/86. In fiscal 1987, however, exports likely will fall to 4.2 million tons because of domestic demand for coarse grain for feed.

Cotton and Oilseed Output To Rise

Cotton output in 1986 is forecast by the U.S. Agricultural Counselor in Beijing to rise

3.6 percent to 4.3 million tons. Area may be slightly under that of last year, but yields should increase. Efforts will be made to improve the lint quality. China will aggressively promote its raw cotton sales and exports could reach 2 million bales (435,000 tons).

Total oilseed output is forecast to increase more than the 1985 rate which was 2 percent. Area is expected to expand and yield increases will contribute about one-quarter of production growth. Record crops of peanuts, rapeseed, and sunflowerseed are forecast. Soybean output for 1986 is forecast to be a record. Rising procurement prices, and internal and foreign demand will boost production. Soybean and soybean meal exports in 1986 are expected to be slightly lower than in 1985 because of the rapid development of livestock output. [Frederick W. Crook (202) 786-1616]

South Asia

Record Wheat Crops in India and Pakistan

India's 1986 wheat crop is estimated at a record 47 million tons, with good weather and increased input use stimulating record yields. Procurement of wheat in price support operations is behind last year's pace, in part because of measures to boost private trading, and subsidized distribution is up significantly. These developments may prevent a further increase in government stocks in 1986/87, but stocks will likely remain well above target. Procurement from the 1985/86 rice crop is matching last year's record, leading to above-target stocks and prompting initiatives to export up to 1 million tons of coarse varieties of rice.

Pakistan's 1986 wheat harvest is estimated at 13.5 million tons, 9 percent above the previous record crop in 1983, with good weather assisting a sharp rebound in yields. Import needs will drop sharply in 1986/87, and exports may be renewed. Despite an 11-percent drop in 1985/86 production, Pakistan's rice exports are up sharply and may reach a record 1.2 million tons in 1985/86 (July/June).

Bangladesh's wheat crop is estimated to be down marginally in 1986 and, unless there is

another strong increase in rice production in 1986/87, import needs may rise. Sri Lanka's 1986 rice crop may be down 10 percent from last year's record because of heavy flooding, boosting rice import needs in 1986/87.

Indian Edible Oil Buying May Pick Up

Despite a 10-percent drop in production, India's 1985/86 (October/September) edible oil imports are expected to be down 17 percent to 1.1 million tons because of high stocks and measures to curb imports and stimulate production. Only about 60 percent of the forecast total was purchased for delivery through June, but buying is expected to pick up over the next several months as rising domestic prices lead to higher government allocations of imported oils.

Pakistan's edible oil imports are expected to be up 5 percent to 700,000 tons in 1985/86, with record domestic output preventing stronger growth in import demand. A recent decision to replace price and import controls on edible oils with an import duty is unlikely to affect imports in the near term.

Palm oil is forecast to account for nearly 70 percent of the region's edible oil imports in 1985/86 because of its low price relative to soybean oil. India's cash purchases of soybean oil are forecast at a 10-year low of 225,000 tons, while Pakistan's purchases are buoyed at 200,000 tons by U.S. concessional and credit financing.

Record Cotton Crops in India and Pakistan

Pakistan's 1985/86 cotton harvest is estimated at 5.7 million bales, 21 percent above the previous year's record. Consecutive record crops are stimulating a sharp increase in exports, particularly to East Asian markets. Exports are estimated at 2.75 million bales, compared with 1.17 million last year. India's 1985/86 cotton crop is estimated at a record 8.4 million bales, with exports forecast at 300,000 bales. Record cotton crops in the region have been fueled largely by use of higher-yielding improved varieties and, despite some weakening of local prices, production is not projected to fall substantially in 1986/87 if weather is normal. [Maurice R. Landes (202) 786-1614]

Economic Growth To Slow

Regional economic growth in 1986 is uncertain and hindered by low commodity prices. Indonesia, and to a certain extent Malaysia, have been hard hit by a sharp decline in petroleum export prices. Their growth rates may be less than 3 percent in 1986. The Singapore economy may contract about 1.5 percent, while little or no growth appears likely in the Philippines. The Thai economic outlook is slightly better and real growth of 4 percent may be realized.

Indonesian Agriculture Diversifies

The 1985 rice crop of 26.5 million tons is expected to be matched by an equally bountiful crop in 1986. While rice continues to dominate Indonesian agriculture and food for domestic consumption remains a top agricultural priority, there is an increasing emphasis on export crops--rubber, palm oil, sugarcane, coffee, cocoa, and tea. Increased output of these crops is expected in 1986. A government plan calls for large investments to expand substantially the area planted to these cash crops over the next 5 years.

Bumper Philippine Rice Harvests

While much of the Philippine economy was deteriorating, rice output in 1985/86 (July/June) rose 6 percent above a year earlier to a record 5.6 million tons. Aside from some typhoon damage in the country's major producing region of Central Luzon, weather conditions during the growing season have been good. Increased plantings were encouraged by expectations of better rice prices following the removal of retail price ceilings.

Malaysia Hit by Low Palm Oil Prices

Malaysia's record 4.1-million-ton palm oil production in 1985, along with a world surplus of fats and oils and sluggish demand, depressed palm oil prices. Low export prices for palm oil and other export commodities--tin, rubber, and petroleum--are responsible for Malaysia's major economic problems. Recent palm oil prices are below the unit production costs of many estates. Palm oil production is forecast

at a record 4.8 million tons in 1986, making price prospects bleak.

Thailand Reacts to Food Security Act

Thailand has continued its strong reaction against the rice provisions of the U.S Food Security Act. Thailand has sought to boost exports by eliminating the regulatory measures designed to raise domestic paddy prices. In addition to the elimination of stock-holding requirements and suspension of export taxes for all grades of rice, the rediscount rate on promissory notes for exporters was dropped from 8-9 percent to 7 percent. A recent barter arrangement with Brazil is designed to exchange rice for tractors. [*Jitendar S. Mann (202) 786-1614*]

Middle East and North Africa

Region's Grain Output Rises

Grain output in the Middle East and North Africa should increase slightly with higher yields because of good rainfall during the winter and spring in some major producing regions. This will more than offset reduced harvests in Tunisia, Israel, and Syria. Gains for 1986 are likely to be less than the 6-million-ton rise in 1985, when grain production reached a record 52.7 million tons. Larger harvests of wheat and barley are expected in Turkey, Iran, Iraq, and Morocco. Total wheat production increased 3 million tons to 29.4 million in 1985 and might surpass 31 million in 1986. Barley output should be about 13.5 million tons, 2 percent over 1985. Egypt accounts for about two-thirds of the 6 million tons of corn produced in the region, and Turkey most of the remainder.

The region's grain imports peaked at 46.5 million tons in 1984 and accounted for 50 percent of the grain supply. In 1985, as production increased, imports declined to 42.3 million tons. Both imports and production are expected to increase in 1986 because demand is strengthened by subsidy systems and stocks are relatively low, except for Saudi Arabia. In 1986, the regional supply is expected to rise to about 97 million tons, including 44 million of imports.

Turkey's grain crop is forecast slightly higher than last year with gains in wheat,

barley, and corn. With the exception of corn, however, grain output has stagnated, and dramatic gains in the near future are unlikely, especially as world prices continue to decline. Turkey continues to import wheat and coarse grains, although to date only wheat has been purchased this year. After declines in sales the last 2 years, the United States again became the principal supplier in 1986 under EEP. To date, 500,000 tons have been purchased under the EEP, and funds are available for the same amount before the end of fiscal 1986.

Iraq has used about half the \$500 million in GSM-102 credit for fiscal 1986. It now appears that about 80 percent may be used by September 30 when the unused portion lapses. As a result, U.S. agricultural exports to Iraq should again surpass \$400 million. This would be in contrast to 1985, when only half of the \$663 million in GSM-102 credit was used, and the \$75 million for barley was untouched. This year, Iraq has made good use of the credit to purchase wheat, wheat flour, rice, corn, soybean meal, dry beans, and seeds. Some of the \$20 million scheduled for tobacco was shifted to dry beans and soft drink concentrates. Iraq has arranged to buy 5,000 tons of tobacco from Zimbabwe and still has stocks of more expensive U.S. tobacco from 1985 deliveries.

Very heavy rainfall in western Iran caused floods in early May which left more than a dozen people dead and thousands homeless. Yet the unusual rain should benefit the 1986 wheat and barley crops, with wheat output above last year's 5.3 million tons. Despite the larger crop, Iran's wheat imports are expected to remain near 3 million tons because of inadequate stocks.

In Saudi Arabia, another bumper wheat crop, estimated at 2 million tons is being harvested, causing storage problems and leading to plans to increase exports. Concern about radiation caused Saudi Arabia to ban imports of fresh produce from Europe. The ban has been lifted for Western European produce, but continues for Eastern European produce.

For the third year in a row, Israel has suffered from drought, resulting in a grain crop failure. The upcoming wheat crop is estimated at 100,000 tons, the lowest since

1963. Barley production is practically wiped out, and water restrictions during the upcoming summer months will lower the output of corn and sorghum. For the United States, this means somewhat higher wheat, coarse grain, and possibly soybean exports to Israel. Inadequate rainfall reduced Syria's wheat and barley output, with wheat estimated at 1.4 million tons, one-fifth below 1985. The Government's decision to increase the wheat procurement price 12 percent is expected to result in increased domestic purchases and reduced imports. In April, the United States extended Syria EEP credit for more than 750,000 tons of wheat for fiscal 1986, but there have been no sales so far. In 1985, Syria imported 1.3 million tons of wheat; 600,000 tons from the EC, 181,000 from Canada, 100,000 from Argentina, and only 58,000 from the United States.

Lower-than-normal rainfall has reduced Jordan's wheat and barley crops. In 1985, wheat imports were 483,000 tons, with 200,000 from Australia and 190,000 from the United States and 93,000 from other suppliers. Through the extension of \$90 million of new CCC credit, Jordan's purchases of U.S. wheat are estimated at 280,000 tons, of which 185,000 were shipped by May. Also, 21,000 tons of U.S. rice were exported through the EEP. Jordan's barley needs are expected to be met by Iraq, which is expecting an excellent harvest.

The Yemen Arab Republic (YAR) has purchased 80,000 tons of U.S. wheat and 33,000 of wheat flour this year under the EEP program. Negotiations continue for the purchase of 100,000 tons of wheat flour under P.L. 480, but no sales were made as of the end of May. The YAR wheat market is estimated at 650,000 tons this year, with Australia the major supplier.

Weather Dominates North Africa Grain Situation

Weather dominates the North African grain situation this year. Good weather, following several years of drought, may give Morocco a record grain harvest. Morocco forecasts a harvest of about 3 million tons of wheat and 2.8 million of barley. Morocco is forecast to import 1.2 million tons of bread wheat, four-fifths from the United States. Algeria also has had good weather, and grain

output may slightly exceed last year's record 3.1 million tons. Production is expected to reach 1.1 million tons for durum, 560,000 for bread wheat, and 1.3 million for barley.

Unusually bad weather has afflicted Tunisia. Grain production is expected to fall to 600,000 tons, one-third of last year's record crop. Wheat production is not expected to reach 500,000 tons, and barley production is forecast at 110,000 tons. The poor harvest is likely to double Tunisia's wheat imports to 1.25 million tons in 1986/87.

The North African nations have been the focus of considerable EEP activity. Algeria has received EEP offers for 500,000 tons of barley, 500 million eggs, 100,000 tons of flour, 250,000 tons of semolina, 1 million tons of non-durum wheat, and 5,000 dairy cattle. Morocco has EEP credits for 1.5 million tons of wheat and 4,000 dairy cattle; Tunisia has EEP credits for 300,000 tons of wheat and 4,000 dairy cows.

Egypt has already begun using the \$50 million for wheat and \$70 million for wheat flour available under GSM-500 for fiscal 1986—a combination of GSM-102 credit guarantees and EEP. As of May 28, only 197,000 of wheat from the second 500,000 tons was sold. Egypt purchased 500,000 tons of wheat and 175,000 tons of wheat flour under the EEP during fiscal 1985. Egypt made full use of the \$21 million available for frozen poultry through EEP. Egypt recently purchased 175,000 tons of U.S. corn using \$19.6 million credit under GSM-102. The \$70.5 million GSM-102 credit for oilseeds and products has had only \$4.5 million in purchases, but all the \$75 million for tobacco should be used by the end of the fiscal year.
[John B. Parker (202) 786-1680]

WORLD TRADE AND FOOD POLICY

U.S.-EC Enlargement Dispute

On March 31, the United States announced it would take trade measures under section 301 of the Trade Act of 1974 in response to EC trade barriers arising from the January 1986 accession of Spain and Portugal, and their adoption of the Common Agricultural Policy (CAP), effective March 1.

The United States initially proposed withdrawal of tariff concessions and equivalent quotas on certain candy, chocolates, fruit juices, beer, and white wine, in response to EC marketing limitations on oilseeds in Portugal, as well as the reservation of 15.5 percent of Portuguese grain requirements for EC suppliers.

The United States further proposed withdrawing tariff concessions on certain meats, cheeses, vegetables, beer, white wine, and spirits, in response to EC withdrawal of tariff concessions and application of a variable levy on Spain's imports of U.S. corn and sorghum.

The Office of the U.S. Trade Representative announced that the restriction on Portuguese grain imports could affect approximately \$357 million worth of U.S. exports, and lost trade is estimated at approximately \$55 million. The withdrawal of Spanish tariff bindings and imposition of variable levies on imports of corn and sorghum affects Spanish imports from the United States that averaged approximately \$624 million annually in 1981-83.

Effective May 19, the United States announced measures that would "mirror" EC measures, applying nonrestrictive U.S. quotas that would take effect only to the extent that EC measures restrict U.S. exports to Portuguese markets. The United States has also withdrawn equivalent tariff concessions in response to the EC unbinding of the 20-percent tariff on Spanish corn and sorghum imports, but has not increased these tariffs in an effort to resolve compensation negotiations by July 1. The EC has announced that it will respond with "equal measures" to U.S. import quotas.

Canned Fruit Dispute Settled

The United States and the EC have settled a dispute over EC production aids to canned peaches, pears, fruit cocktail, and raisins. The United States initiated a section 301 case against these EC subsidies in October 1981. A panel was formed under the General Agreement on Tariffs and Trade (GATT) settlement mechanism in March 1982, with the United States arguing that tariff concessions negotiated on these products were nullified by

EC production subsidies. The panel report, after several rounds of negotiations and revision, was issued in July 1984, noting that EC production aids nullified U.S. benefits from tariff concessions on canned peaches, pears, and fruit mixtures, but not on dried grapes. However, the EC has repeatedly put off the report's adoption because of possible implications regarding the free-trade area provisions of GATT Article XXIV. EC concerns center on the nullification of benefits of tariff concessions that result from the introduction of new domestic support measures.

Nonetheless, the United States and the EC notified the GATT Council on February 12 that agreement had been reached whereby: (1) the United States takes account of the fact that production aids for canned pears applied over the past 3 years have been autonomously reduced, and that there is a quota on the amount eligible for such aid; (2) the EC would undertake to reduce production aids for canned peaches 25 percent in 1986-87 compared with 1985-86; and (3) the EC could assure that further production aids will be fixed so as to not subsidize the processing operation for peaches in syrup, either canned or as part of fruit mixtures.

OECD Ministerial and G-7 Summit Meetings

Ministers from the 24 industrial countries in the Organization for Economic Cooperation and Development (OECD) had their annual meeting on April 17-18 in Paris to review the economic situation and policies among the developed nations. Their final communique strongly endorsed the beginning of trade liberalization talks in September 1986 under the GATT. The ministers recommended including trade in services and trade-related issues, as well as reaffirming their Governments' safeguards and rollback commitment "to avoid new restrictive measures and to pursue their efforts to reduce trade restrictions and trade-distorting measures."

Heads of State and Government of the seven major industrial democracies met on May 4-6 in Tokyo, where the leaders reaffirmed their countries' trade commitment to "halting and reversing protectionism and to reducing and dismantling trade restrictions,"

as well as "the strengthening of the new system and functioning of the GATT." [Ted Wilson (202) 786- 1688]

COUNTRY BRIEFS

Canada Requests Duties on U.S. Corn

On May 12, the Ontario Corn Producers Association (OCPA) petitioned the Canadian Government to impose countervailing duties on corn imports from the United States. The OCPA claims U.S. corn producers are heavily subsidized as a result of the 1985 Food Security Act that provides deficiency payments and other Government supports. In recent years, the United States has filed numerous countervailing duty cases against Canada but this case is the first brought against the United States. The Canadian procedures are similar to U.S. procedures; determinations of both subsidy and injury must be found. The Government must decide by early July whether to accept the case. If subsidization is found, preliminary duties on U.S. corn imports could be in place by early October.

The province of Ontario produces most of Canada's corn. Production has increased steadily over the past 15 years and U.S. exports have dropped off. Ontario is now self-sufficient in corn and exports to neighboring provinces. [Carol Goodloe (202) 786- 1663]

Australian Policy Statement Issued

On April 15, in response to the depressed farm income situation, the Government of Australia presented a comprehensive policy statement on the rural economy. The report emphasizes linkages among economic, trade, and agricultural policies.

The principal cause of the rural recession was identified as falling world prices resulting largely from other producers' export subsidies and domestic support programs. Thus, diplomacy is a major part of the Government's policy agenda.

Increased funding, about \$A90 million in 1986, will be provided to improve marketing of agricultural produce, support research and development, subsidize fertilizer use, and

provide loans under the Rural Adjustment Scheme. Federal government outlays on agriculture total around \$A450 million annually. Import tariffs on farm inputs are being replaced by bounties to domestic manufacturers, and changes in fuel taxes and pricing arrangements are reducing farmers' costs. Grain handling costs will be examined for potential savings. The Government has dropped plans to isolate farm losses from off-farm income for taxation purposes. Services to rural residents and communities will be improved.

Despite criticism from farming interests, the Government will not change its macroeconomic policy, which is designed to restrain inflation and maintain labor productivity. [Sally B. Byrne (202) 786- 1611]

Nigeria Unlikely To Ban Wheat Imports

In May, Nigerian President Babangida announced a possible wheat import ban. However, a reading of the President's statement, "Let me therefore seize this opportunity to further state the intention of the Government to put an end to the importation of wheat as from 1987," leaves the impression that the matter is still under discussion. The U.S. Agricultural Attache in Lagos interpreted this statement as a trial balloon. Nigeria now imports 1.6 million tons of wheat annually. A ban would seriously disrupt food supplies and, therefore, is unlikely in an already sensitive political and economic climate.

Other Commodity Imports Banned

Since October, Nigeria has banned imports of corn, rice, and vegetable oil to conserve foreign exchange. The bans have applied only to commodities which are also

Nigerian wheat and flour imports

Year	Imports		U.S. exports		U.S. share
	1,000 tons	Million dollars	1,000 tons	Million dollars	Percent
1980	1,176	219	1,002	181	85
1981	1,517	297	1,203	225	79
1982	1,605	295*	1,285	215	80
1983	1,498	270*	1,316	215	88
1984	1,666	290*	1,617	256	97
1985	1,550	260*	1,473	226	95

* Estimated.

produced domestically. For example, imported corn supplied only about 6 percent of total use, while imported rice and vegetable oil each accounted for about one-third of consumption.

Wheat, on the other hand, is not produced in significant quantities, and imports account for 98 percent of total use. The Government's current policy is to substitute other flours, such as corn, sorghum, millet, cassava, or yam for wheat in bread making. Little experimentation with these flours has been done in Nigeria, and attempts in other African countries have not been successful because of technical problems and consumer resistance. Bread has become important in Nigerian diets because it is inexpensive and requires no preparation. Adding a bread shortage to the other imported food shortages in Nigeria could lead to protests.

1986 Wheat Imports Down

Nigerian wheat imports in 1986 are running much below 1985 because the Government delayed issuing import licenses from January to the end of March, causing most mills to close. Wheat imports resumed in May, but the quantity is not likely to reach the 1985 level. The lack of Export-Import Bank insurance (FCIA), withheld because Nigeria has overdue debts, has led to further delays in shipments of U.S. wheat. [Margaret Missiaen (202) 786-1680]

New Direction in Nigerian Policies

As Nigeria continues to suffer from declining petroleum revenues, the Government is taking a new approach to encourage agriculture and diversify exports. Direct Government involvement in agriculture is being curtailed in favor of increased incentives to private producers.

In April, the first four state-owned agricultural firms were offered for sale by competitive bidding. This step toward fulfilling the 1985 promise to cease all agricultural production by the state follows a decade in which state production was a centerpiece of Government agricultural plans.

Also in April, the Government announced the gradual abolition of its six commodity

marketing boards. The importance of the boards had declined in recent years because they offered prices significantly below those available from private traders. Cocoa has been the only major agricultural export and the only commodity marketed principally through a board. [Carl Mabbs-Zeno (202) 786-1680]

South Africa Increases Corn Prices

In May, the South African Maize Board increased producer prices for yellow corn 5 percent. The new price is equal to \$97.06 per ton, with 1 rand equaling \$0.43. This is an attempt to partially meet higher production costs, and keep up with 20-percent inflation, without pushing prices much further above world markets.

Earlier in the year, South Africa was losing about \$40 per ton on exports of yellow corn. To help stabilize the board's financial position, consumer prices of white corn, the staple food, have been increased nearly 14 percent, and yellow corn nearly 10. The domestic wholesale price of yellow corn, largely used as feed, is up to \$3.07 per bushel effective May 1. In contrast, U.S. No. 2 yellow corn in Central Illinois averaged about \$2.30 per bushel during March and April. Consumer corn prices will be increased about 1.6 percent each month after May 1 to cover storage and handling costs.

With area up 4 percent from 1985, South Africa's corn production in 1986 is estimated up 3 percent to 8 million tons, with an average yield of 31.5 bushels per acre. [Larry Witucki (202) 786-1680]

U.S. Imports of Iranian Pistachios Up

U.S. pistachio imports from Iran more than doubled during January-March 1986 to 2,560 tons for \$7.2 million. This was apparently an effort by Iran to beat the U.S. countervailing duty of 192 percent enacted March 5, 1986, after the 57 percent implemented in January. Iran's policy of promoting exports of petroleum and food exports to the United States while boycotting U.S. food exports now faces problems.

Iran's pistachio exports more than doubled between 1982 and 1984 and remained at about 22,000 tons in 1985. Exports to the United

States, the EC, and Asian markets were up dramatically.

In the last 2 years, Iran provided about half the pistachios sold in the United States, and the United States accounted for about half Iran's exports. In 1984, U.S. pistachio imports from Iran more than tripled to 9,107 tons, and the value nearly quadrupled to \$40.5 million. In 1985, imports increased to 12,040 tons. The average price declined from \$4,876 to \$2,896

per ton between 1983 and 1985, and in January-March 1986 was \$2,800 per ton. Iran reduced the price just enough to take a greater share of the U.S. and EC markets, and it was this action, plus Iran's refusal to respond to queries about prices and costs of production, which led to the original countervailing duty. Turkey appears to have been hurt by the Iranian tactics, and stocks have accumulated there. Also, U.S. exports to Europe have been hampered by Iran's sales push. [John Parker (202) 786-1681]

THE U.S. DOLLAR AND WORLD PRICES

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Abstract: Movements in the value of the U.S. dollar are strongly (and inversely) related to the prices of a wide variety of internationally traded goods, including agricultural products. When the dollar rises, world prices (in dollars) fall. The reverse is the case when U.S. currency declines in value. These relationships are true of both general and specific price series, given trends longer than 2 years. The relationships are explained not only by the price effects of exchange rate movements, but also by underlying factors that cause the dollar to rise and fall in value.

Keywords: Exchange rates, prices, interest rates, money supply, money demand, U.S. dollar, world currency.

Movements in the value of the U.S. dollar are inversely tied to price changes for a wide variety of internationally traded goods, including agricultural products. The relationship is straightforward. When the dollar rises, world prices (in dollars) fall. The reverse is the case when U.S. currency falls in value. This is due not only to the price effects of exchange rate movements, but also to those factors that cause the dollar to rise and fall in value. The movements in the dollar's value are reflections of its use by the world community. Only the widespread acceptance of U.S. currency in international markets can lead to the kinds of consistent relationships examined here.

The World's Money

As of the end of 1982, the dollar comprised 60 percent of all foreign exchange reserves and 75 percent of those held in convertible currencies (5)*. In addition, the dollar is the basis for 80 percent of all

Eurocurrency deposits (3). More countries' currencies are fixed to the dollar or on a sliding peg against it than to all other currencies combined (4, March 1986).

The dollar's wide use as a medium of exchange in world trade is also well known, but less quantifiable than the total of dollar holdings. It seems likely, however, that at least 70 percent of world trade occurs through an exchange of U.S. dollars.

Two properties are immediately evident from this situation. First, the U.S. dollar is generally acceptable either as a means of purchase and receipt or as a crucial intermediary to facilitate secondary transactions. Second, the tendency towards using U.S. dollars must be a result of its being the least costly currency to hold or to purchase.

*Numbers in parentheses refer to literature cited at the end of this article.

Indeed, one could also argue that the pervasive presence of the dollar in Eurocurrency markets, in all parts of the world, is due to international banks finding it less expensive to deal in dollars than in any other currency. Such savings in transaction costs are passed along to customers. The dollar's general availability makes it easily obtained and guarantees its inexpensive use.

The Value of the Dollar and World Prices

The pervasive presence of the U.S. dollar gives it considerable influence in competitive world markets. Changes in the value of the dollar are closely correlated with opposite movements in a variety of general and even specific prices. The basic relationship between exchange rates and prices in competitive markets is well understood by those industries most dependent on foreign trade. Considering the dollar's function as world money allows us to examine its effect on prices of goods having world markets, such as agricultural products.

When the dollar rises, individuals in other countries must give up more of their home monies to obtain the same amount of U.S. currency as before. Therefore, all goods priced in dollars, such as petroleum, will appear to rise in price. The seller will be forced to accept a lower dollar price to sell the same amount. In general, whenever U.S. currency rises in value over a long enough period of time, we will see a fall in world dollar prices. When the dollar falls, those same prices rise.

Factors other than exchange rates do, of course, affect the amount and the prices of goods people sell and buy. Weather, cartels, and changing market conditions have had profound effects on the supply and prices of internationally traded goods. Wide swings in world income growth over the past 20 years have also significantly affected purchasers' ability to buy products in world markets.

There have been four major, identifiable long-term (2 years or longer) trends in the value of the dollar over the past two decades. Beginning in the third quarter of 1968, the dollar--as measured by the Federal Reserve's "index of the weighted-average exchange

value of the U.S. dollar," (2)--dropped steadily until the third quarter of 1973, losing some 23 percent of its value.

The value of U.S. currency then "waffled" until the third quarter of 1976. At that point, the dollar again fell, almost continually, until the next-to-last quarter of 1980. From that time until the first quarter of 1985, the dollar soared in value to 83 percent above its low.

These four periods are compared in the accompanying table with world export and import unit values (measured in dollars). The indexes show approximate changes in the relative prices of all traded goods. As expected, both series show sharp increases during the two periods in which the U.S. dollar depreciated in value. Further, the two unit value indexes show declines coinciding with the dollar's appreciation.

As we move from general to more specific price indexes and price series in the table, the same trend holds, especially in those periods when the dollar showed sustained movement either up or down. As far as agricultural prices go, the "waffle" period saw mixed results. Of the agricultural price indexes and farm products listed, only maize increased in price for that period. No such vacillation was evident, however, during times of sustained dollar movement up or down. When the dollar fell, prices of farm products rose, and rose strongly. A rising dollar, in turn, took its toll on prices during the appreciation of the early 1980's.

The same picture holds for primary metals, both individually and in the aggregate. Regardless of the commodity, the general rule seems clear: The value of the dollar and world prices have a strong inverse relationship, which is apparently inviolate during sustained stretches of change in the dollar's worth relative to other major currencies.

The Rest of the Story

Three factors are most often cited in explaining the changes in the value of the dollar over the past 20 years. They are interest rates, the money supply, and money demand. All three will be examined in the context of the dollar as the world's money.

Relationships between the foreign exchange value of the U.S. dollar and commodity prices

Commodity	Periods of change in dollar value			
	Fall 1968-III.....	Waffle 1973-III.....	Fall 1976-III.....	Rise 1980-III.....1985-I
	Percent change 1/			
Trade-weighted dollar 2/				
Average	-23	13	-20	83
Gross	-5	4	-5	14
Indexes				
Import unit values 3/				
Average	60	48	78	-20
Gross	10	14	15	-5
Export unit values 3/				
Average	62	48	78	-20
Gross	10	14	15	-5
Food 3/				
Average	133	-8	76	-37
Gross	18	-1	15	-9
Agr. raw materials 3/				
Average	146	-7	34	-22
Gross	20	-1	8	-5
Metals 3/				
Average	74	3	53	-30
Gross	12	3	11	-8
Selected commodity prices				
Soybeans (Rotterdam, c.i.f.) 4/				
Average	196	-17	22	-23
Gross	27	-1	9	-4
Wheat (Gulf ports, f.o.b.) 4/				
Average	157	-20	35	-16
Gross	23	-4	9	-4
Corn (Gulf ports, f.o.b.) 4/				
Average	149	7	16	-15
Gross	21	4	6	-2
Copper 3/				
Average	88	-23	36	-34
Gross	16	-3	11	-9
Iron ore 3/				
Average	54	14	22	-16
Gross	10	6	6	-3
Tin 3/				
Average	59	64	109	-35
Gross	10	20	20	-9

1/ Average of annualized quarter-to-quarter movements within periods indicated. Gross changes are from beginning to end of period indicated. 2/ Federal Reserve Bulletin, various issues. 3/ International Financial Statistics. 4/ FATUS, various issues.

Changes in any of the three conditions will also affect prices.

Interest Rates

The most frequently cited reason for the appreciation of the dollar over the last 5 years is the high interest rates paid on dollar-denominated assets both here and abroad. The focus, of course, has been on the "real" rates of return—interest rates adjusted for some expected rate of price increase or decrease. The calculation of real interest rates is therefore dependent on how one measures inflation (as well as expected inflation, which is unobservable).

The use of the dollar as the primary instrument of world trade implies that some sort of global price index would be appropriate. People holding dollars outside the United States are presumably more concerned with what the dollar buys there, and not in New York or Cleveland. The real interest rate used here will thus be estimated as the 3-month London interbank offered rate (LIBOR) on dollar deposits, less the change in world import unit values.

U.S. currency should rise in value whenever real rates of return are clearly higher on dollar-denominated bonds, certificates, etc., than on comparable

financial instruments whose face value is listed in other monies. Investors and bankers will, on average, prefer 4 percent, after inflation, to 3 percent. When large sums of money are involved, of course, even smaller differentials become crucial.

There have been four general trends in the movement of the dollar against the German mark since 1970. The dollar depreciated from the first quarter of 1971 through the third quarter of 1973. This was followed by a vacillation during the next 14 quarters, and another depreciation into the fourth quarter of 1979. From then into the first quarter of 1985, the dollar has appreciated strongly relative to its German counterpart. The last two periods are particularly instructive. The dollar's decline, then advance, against the mark is plainly associated with real interest rate differentials in favor of the appreciating currency.

There are three distinct trends noted in the movement of the dollar against the British pound from 1970 into the first quarter of 1985, which include no vacillation. The dollar has either risen or fallen. As with the German mark, the last two episodes clearly indicate that the appreciating currency possesses a real interest rate advantage.

Interest rates are not only important to exchange rates, but they may also exert considerable influence of their own over prices. Most production and sales are intermediated by some sort of inventory. These stocks form a buffer which smooths cycles in supply and demand. Interest rates are crucial to the size of these stocks. High

interest rates make holding inventories expensive in two ways. First, the cost of borrowing to finance carryover increases. Second, the present value of such holdings declines as real interest rates increase. Both of these factors encourage the reduction of inventories.

The extra supply that finds its way to the buyer (because it is not held in inventory) can do so only at a lower price. The reverse, of course, will be true when real interest rates are very low or even negative. In that case, the possibility of future price increases justifies holding larger stores than would otherwise be the case.

That is not, however, the end of the interest rate story. High interest rates may also induce people to save more and spend less. The reduction in demand will cause prices to fall, as people will be willing to buy the same quantities of goods only at lower prices. But, negative real interest rates will once again reverse this scenario.

Money Supply Effect on Dollar

Exchange rates, it is argued, measure the relative price of two monies. This is the essential argument of the "monetary" approach to the balance of payments (6). If the supply of dollars increases faster than the supply of yen, for example, then U.S. currency should decline in value relative to Japanese currency. As a measure of world money, since we are dealing with a world currency, the most consistent series would be the total size of the Eurocurrency market--foreign currency (primarily U.S. dollar) liabilities of banks in

Changes in foreign exchange value and real interest rate advantage for U.S. dollars

Commodity	Periods of change in dollar value				
	Rise 1971-I.....	1973-III.....	Waffle 1976-IV.....	Fall 1979-IV.....	Rise 1985-I.....
Percent					
Dollar vs German mark					
Average change	-12		4	-9	11
Gross change	-35		8	-32	75
Real interest rate advantage 1/	-5		-11	-5	10
	1971-III.....	1976-IV.....		1980-IV.....	1985-I.....
Dollar vs British pound					
Average change	8			-9	19
Gross change	47			-31	114
Real interest rate advantage 1/	-5			-3	12

1/ A positive value indicates a real interest advantage for U.S. currency.

Western Europe and offshore banking centers such as the Bahamas, Cayman Islands, Panama, Hong Kong, Singapore, and Bahrain.

The size of the Eurocurrency market increased dramatically during the 1970's, growing more than 20 percent a year. However, this growth slowed markedly in the 1980's. The rate of increase fell below 20 percent in 1980 and 1981, then to less than 5 percent in 1983 through early 1985. The expected association, as with prices, is clearest in the late 1970's and early 1980's. The dollar declined in value from 1976 into 1980, as the Eurocurrency market surged. Then, the abrupt halt to the rise in Euromoney coincided with the appreciation of the dollar.

Money growth also affects prices, although after a greater lag than its effect on exchange rates. An increase in money finds people with more money than they want to hold or to save. As they spend it, prices rise because demand increases relative to supply. (Output may also increase. We are here concerned only with price effects, however.) The reverse is the case when money (or its rate of growth) is reduced.

The rate of change in money also affects interest rates in ways that enhance the price effects noted above. A decrease in the growth rate of money raises interest rates by contracting the supply of credit. The rise in interest rates, as we have seen, will lead to inventory reduction and price declines. A fall in the rate of growth in money may also reduce prices by leading to lower aggregate demand.

Money Demand Affects Dollar and Prices

Among the most difficult, slippery, and perplexing topics in economics is the concept of money demand. Holding money is central to the concept of money demand. When people suddenly desire to hold more or less money than previously, interesting things happen, especially to prices. People acquire dollars to spend or to save. The quantity of dollars held for the purpose of spending, now or in the near future, is money demand. Money saved is not money held. When people hold more money, they either spend less or save less. If less is spent, then prices will fall as aggregate demand declines.

Two reasons have been advanced, neither of them directly quantifiable, that purport to explain at least part of the surge in the worldwide demand for dollars. These explanations are independent of money supply or interest rate considerations, and fall under the headings of safety and wealth.

The safety postulate says that in a world of increasing uncertainty, a premium is placed on a currency's liquidity, acceptability, and low risk. All of these factors favor the dollar. No currency is more acceptable, few are backed by a government as stable, and dollars are easy to carry and obtain. All of these benefits suddenly converged, however, as interest rates rose on dollar deposits in Europe and elsewhere.

Wealth is defined as those assets that yield income (or a stream of services) over a period of time. As wealth increases, there is less incentive to save; the rainy day is already taken care of by existing stores of value. When wealth increases, then, people are willing to hold more money because they will want to spend more money now rather than later. The demand for money increases. Other things equal, a rise in wealth, measured in dollars, will act to lower prices by raising the amount of dollars that people are willing to hold.

The world market did, apparently, see a windfall when it came to wealth during the early 1980's. The rise in the dollar gave substantial capital gains to people overseas holding dollar-denominated stocks and bonds. An individual (or institution) in Great Britain, for example, may have held £1000 of U.S. Government securities in 1980, worth \$2,324. By 1984, \$2,324 was worth £1,739—a 74-percent windfall (over and above interest payments) to the British investor in terms of the home currency. Wealth had increased without the necessity of saving, encouraging holding more dollars. As the rate of growth in money fell, then, prices had to fall. This is a variation on the "portfolio-balance" approach to exchange-rate determination (1), applied to the dollar as a world currency.

Summing Up

The value of the dollar is closely related to prices, both in general and in specific markets. In addition, those factors which

cause the dollar to rise or fall in value also directly affect world prices, reinforcing the exchange rate effect. Clearly the "issue" of the dollar is not so simple as it once seemed. Recent experience does suggest, however, that if the conditions which have induced the dollar to fall over the past 14 months are sustained, world prices will increase. A continuing oversupply of primary commodities makes it unlikely that this effect will be felt or prices will increase in the coming year. However, increased demand generated by the falling dollar will lead to higher prices than would otherwise be the case. The pervasive relationship between exchange rates and prices implies that agricultural markets will also be affected. [David Stallings (202) 786-1624]

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TRENDS FOR GRAIN CONSUMPTION, PRODUCTION, AND TRADE IN THE DEVELOPING COUNTRIES

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Abstract: The developing countries' rapidly accelerating growth in demand for food is exceeding their capacity to expand domestic production. Their increasing dependence on foreign supplies may create growing markets for U.S. exports of food grains and coarse grains.

Keywords: Developing countries, grain, production, consumption, trade, dependency.

In the developing countries, food production is generally increasing more rapidly than population but less rapidly than consumption (notable exceptions include some countries in Sub-Saharan Africa, where population is increasing faster than production and consumption). Thus, imports by the developing countries are climbing. These larger imports reflect both rapidly expanding population and economic development. Two important economic forces affecting consumption are rising per capita income and increasing urbanization.

Not only does food consumption increase with rising incomes, but consumption patterns

change. With higher incomes, consumers substitute livestock products and other more costly foods for staple foods of coarse grains and roots and tubers. More domestically produced livestock products require, in turn, additional supplies of feedstuffs.

This article reviews the ongoing changes in food grains (wheat and rice) and coarse grains (corn, sorghum, millet, and barley) in the developing countries, and contrasts their situation with the industrial market countries. Developing countries and industrial market countries are defined as in the World Bank's *World Development Report 1985*. China is not included in this discussion.

Consumption Nearly Doubles

Total consumption of both food grains and coarse grains has almost doubled in the developing countries during the past 20 years, exceeding population growth and raising per capita consumption. The patterns underlying the higher consumption of these two commodity groups are quite different, though.

In the developing countries, almost all of the food grains are consumed directly. For the coarse grains, a large, but declining, proportion is consumed directly as food. In contrast, little of the coarse grain consumed in the industrial market countries is utilized directly as food. Per capita consumption of coarse grain as food has declined in the developing countries. Use of coarse grains as livestock feed has increased rapidly, however, because of the strong derived demand for feedstuffs created by the larger output of domestic livestock products.

Production Outpaces Population

In the developing countries, the increase in per capita production in the last two decades has been most significant for the food grains. Nevertheless, it is imports that have allowed consumption of food grains and especially coarse grains to increase more rapidly than production in the developing countries. In contrast, production has grown more rapidly than consumption in the industrial market countries, including the United States.

The larger production of food grains and coarse grains in the developing countries, as well as in the industrial market countries, has resulted from both improved yields and expanded acreage. These two commodity groups together occupy a relatively large proportion of total harvested areas—65 and 68 percent in the developing and industrial market countries, respectively, in 1980–82. The coarse grain harvested area in the developing countries increased less rapidly than the area devoted to food grains and the total harvested area. Thus, the proportion of total harvested area in coarse grains declined.

The percentage improvement in crop yields in the developing countries was about the same as in the industrial market countries. In both groups, the contribution of

Consumption patterns in the developing and industrial market countries

Item	Food grains		Coarse grains	
	Devel- oping	Indus- trial	Devel- oping	Indus- trial
Percent change 1961–63 to 1980–82				
Consumption				
Food 1/	92	6	44	27
Feed	168	108	199	60
Food and feed	94	19	89	59
Per capita				
Food	22	–10	–9	8
Feed	70	76	90	36
Food and feed	23	1	20	35

1/ Food use includes direct consumption of primary and milled products.

Source: FAO food balance tape.

Production changes in developing and industrial market countries

Item	Food grains		Coarse grains	
	Devel- oping	Indus- trial	Devel- oping	Indus- trial
Percent change 1961–63 to 1980–82				
Production	80	70	65	105
Per capita	14	44	4	74
Area	28	29	15	35
Yield	40	32	44	51
Proportion of total area	5	6	–7	11
Ratio of yield to area 1/				
	1.4	1.1	3.0	1.5

1/ The yield contribution is the change in yield from 1961–63 to 1980–82 multiplied by 1961–63 harvested area. The area contribution is the change in area from 1961–63 to 1980–82 multiplied by 1961–63 yield.

Source: FAO production tape.

improved crop yields to increased production was greater than the contribution of expanded harvested area from 1960 to 1982, especially for coarse grains. In the developing countries, the yield contribution of coarse grains was three times larger than the effect of expanded harvested area. Crop yields have been rising with the spread of higher yielding varieties; greater use of fertilizer, herbicides, and insecticides; expanded use of irrigation in some areas; and other technological innovations.

Despite these significant increases in production, though, the developing countries have steadily increased imports from the industrial market countries because of the

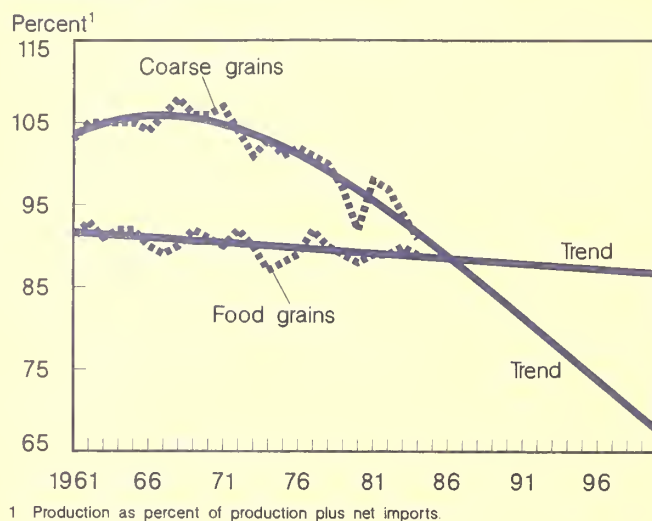
combination of rapidly growing populations and economic development.

Trade To Increase

The developing countries' increasing dependence on foreign grain supplies can be seen in the trends for domestic production as a percentage of the sum of domestic production and net imports. Self-sufficiency for coarse grains is trending down more rapidly than for food grains. The developing countries were net exporters of coarse grains during the 1960's and early 1970's. Since the mid-1970's, however, their coarse grain imports have increasingly overshadowed exports.

The developing countries' food grain imports have also increased, but their dependence on food grain imports has grown more slowly than that for coarse grains over the past two decades. Projecting these self-sufficiency trends into the future dramatizes the differences between the two

Self-sufficiency Declines as Grain Use Outpaces Production



commodity groups. Continuation of these trends represents potential growing markets for U.S. exports of food grains and coarse grains. [Gary Vocke (202) 786-1706]

THE U.S. TRADE BALANCE WITH AFRICA AND THE MIDDLE EAST

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Abstract: The U.S. trade balance with this region has changed substantially during the last 15 years-- ranging from a surplus of \$1 billion to a deficit of more than \$30 billion. Currently, the United States has around a \$3- billion trade deficit with this region. The region is almost a \$20 billion market for the United States, with agriculture accounting for over 25 percent of the total. U.S. imports from the region total about \$23 billion, with a 6-percent share for agriculture. We examine the trade balance between the United States and North Africa, the Middle East, Sub-Saharan Africa, and South Africa and discuss the role played by specific commodities, both agricultural and nonagricultural, in the trade balance and the changes in commodity composition.

Keywords: Trade balance, surplus, deficit, Africa, Middle East, oil price, agriculture.

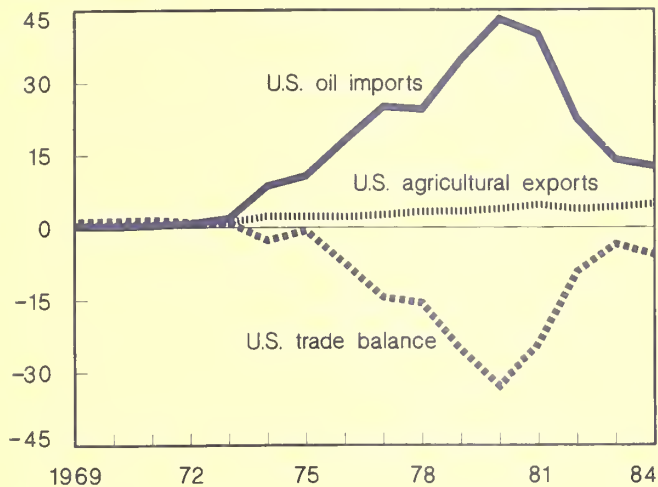
U.S. Trade Deficit Narrowed

The United States has had annual trade deficits with the Africa and the Middle East region since 1974, when the price of oil tripled. Oil is the major U.S. import from the region, and accounted for over 80 percent of the total import value from the late 1970's to

early 1980's. From 1969 to 1974, the U.S. trade surplus stood at around \$1 billion. The trade deficit that began in 1974 peaked at \$30 billion in 1980, when oil prices soared to more than \$30 per barrel. In 1985, the deficit was about \$3 billion, and the region supplied only one- third of U.S. oil imports, compared with about two- thirds in 1981.

U.S. Trade Deficit Declining with Africa and Middle East

Billion dollars



The value of U.S. exports to the region increased more than fivefold since 1973 to a peak of \$23.4 billion in 1981. Rapidly growing populations, large export earnings, policies subsidizing consumption, and the availability of credit boosted import demand in the region during the last decade. Also, the 1973 change in U.S. monetary policy that allowed the dollar to float in the world exchange market made U.S. commodities more competitive with those from other exporters.

In recent years the situation has changed. Declining oil prices, coupled with expensive credit at high interest rates, have reduced the value of the the region's total imports significantly. Also, U.S. policy to reduce inflation, through a restrictive monetary policy, resulted in a substantial increase in the value of the dollar. Diversification of trading partners by both the United States and the region, for political and economic reasons, reduced the size of trade. Since 1980, total U.S. imports from the region declined 70 percent, while U.S. exports declined 22 percent to less than \$18 billion. Lower oil imports accounted for almost all of the U.S. import decline, while agricultural and mineral imports grew moderately. Despite the decline in overall U.S. exports, agricultural exports increased to a record \$5 billion in 1984, and their share of total exports approached 25 percent.

Trade between the United States and this region is not expected to change

substantially. The U.S. shift from the Middle East as a major oil supplier is not likely to be reversed in the near future. For other commodities, agricultural (coffee, tea, etc.) and minerals, U.S. import demand is growing very slowly. U.S. exports to the region will wane as declining oil revenues and stagnating prices of other commodities restrain the region's overall purchasing power. Credit is expected to play the most important role in increasing both the relative and absolute market share of U.S. agricultural commodities. The Food Security Act of 1985 and its promotion of exports through increasing short term credit, establishing a barter program, and changing cargo preference laws should increase the value of U.S. agricultural exports to the region.

U.S. Surplus With Middle East Growing

The U.S. trade deficit with the Middle East began in 1977 and continued through 1981. The deficit peaked in 1980, when U.S. oil imports—almost \$17 billion—comprised over 90 percent of total imports. Since 1982, the United States has enjoyed a trade surplus with the Middle East, as petroleum imports declined 45 percent. The drop was part of the U.S. policy to diversify suppliers for security purposes.

As oil prices hover at the \$10- to \$15-per-barrel mark, the U.S. surplus should increase, as the U.S. oil bill will be cut in half. However, lower oil prices will not have a completely positive impact because demand for U.S. exports may decline as the region's oil income declines. Reduced oil revenues will force the oil exporters to reduce allocations for food imports and become even more price and credit sensitive. In addition, competition for the shrinking Middle East market will intensify.

Over the last 15 years, agricultural products have averaged 20 percent of U.S. exports to the Middle East. Cereals comprised 50 percent of agricultural exports and have grown 15 percent annually since 1969. However, dietary improvements resulting from rising incomes have changed the composition of the region's agricultural imports. Meat and meat products now account for 30 percent and cereals for 27 percent. In 1969-71, meat and meat products accounted for only 14 percent,

while cereals were almost 30 percent. This has not been a favorable development for the United States, which is not a major red meat exporter.

The U.S. market share in the Middle East has declined markedly, and other supplier credit has often hurt the U.S. share. The United States currently supplies only 20 percent of Middle East cereal imports, compared with 40 percent less than 10 years ago. Along with the United States, leading suppliers include the EC (primarily France), Australia, and Argentina.

U.S. Deficit With North Africa Falls

The U.S. trade deficit with North Africa has fallen quite rapidly since the early 1980's and is currently at \$500 million. As in the Middle East, the reduced deficit is a result of declining U.S. oil imports, as U.S. exports to North Africa have remained constant in value. Since 1980, oil imports declined more than 60 percent per year; a contributing factor was the suspension of imports from Libya in 1982. Currently, the region supplies only 3 percent of U.S. oil imports.

On the U.S. export side, North Africa is a large growth market. Over 40 percent of U.S. exports to the region are agricultural, primarily cereals. U.S. cereal exports to North Africa, mostly wheat, have increased over 10 percent annually since 1980. This is mainly a volume increase as wheat prices have remained steady, declining only very recently. Remaining U.S. exports include airplanes, construction equipment, and high technology products. There have been no notable gains in U.S. market share since the mid-1970's as competition has intensified. The increased number of suppliers has resulted from importing countries seeking less expensive suppliers. In addition, North African countries entered the export market to alleviate their own financial difficulties.

Deficit Largest With Sub-Saharan Africa

Of the four regions studied, Sub-Saharan Africa triggered the largest U.S. trade deficit with large oil exports to the United States. The current deficit is about \$6 billion, less than half that of 1980. Sub-Saharan Africa supplies the United States with more oil than either the Middle East or North Africa, and

since late 1973, oil has accounted for about 75 percent of U.S. imports from the region.

Agricultural trade between the United States and Sub-Saharan Africa is in balance with each having a \$1-billion market. U.S. imports consist primarily of coffee and cocoa. In 1982-84, 20 percent of U.S. imports of these commodities emanated from Sub-Saharan Africa. U.S. agricultural exports to the region are dominated by cereals, which increased 25 percent from 1984 to 1985 because of large food aid shipments during the drought. In 1986, U.S. exports are dropping considerably as Sub-Saharan cereal production approaches a record 50 million tons. However, the region's agricultural production has shown large annual fluctuations and a declining per capita production trend. Therefore, the region's import dependence will continue. Other factors contributing to this dependence are government subsidies, overvalued exchange rates—which make imports cheaper—and an inadequate infrastructure. High transportation costs and poor marketing systems in some countries make it cheaper to import than supply the urban areas with domestically produced goods.

Trade With South Africa Balanced

U.S. trade with South Africa is currently in balance. From 1969 through 1976 there was a consistent surplus, but trade has varied from surplus to deficit since then. Most U.S. imports from this country are selected minerals and diamonds, which account for 40 percent of the total. U.S. exports have held steady recently. Agricultural commodities usually do not account for much of the exports as South Africa is virtually self-sufficient. However, in 1983 and 1984, South Africa was hit by major droughts that substantially reduced corn production, and necessitated substantial imports. In 1985, agricultural exports returned to normal levels of about \$100 million.

Trade Balance Outlook Mixed

The outlook for the U.S. trade deficit with Africa and the Middle East is mixed. Certainly, the value of U.S. oil imports will decline as prices drop below \$15 per barrel. However, the fall in petroleum prices will translate into a fall in earnings for most of the region. The question therefore arises as to the

impact of lower revenues on imports of the OPEC nations. Agricultural imports should remain at their current levels as people in these countries have become accustomed to a certain level of food availability and any reduction would certainly be opposed, particularly in the politically powerful urban areas. Any reduction in imports would be in nonagricultural products. However, if agricultural imports had to be cut, feed products rather than food or vegetable oils probably would be reduced. As financial conditions worsen, consumption of meat would be replaced by higher levels of food grains.

For the North Africa and Middle East region, the high-income exporters (Saudi Arabia, Libya, and Kuwait) are unlikely to change their import habits dramatically, as they have tremendous oil reserves, large financial reserves, and little foreign debt. The countries likely to be affected (Egypt, Jordan, and Yemen AR) are those that were exporting labor to the Persian Gulf and Libya. Remittances from their laborers were major sources of foreign exchange. However, this income source is declining as the wealthier OPEC nations curtail construction and other infrastructural development and hence, reduce their demand for foreign workers.

In Sub-Saharan Africa, Nigeria is the largest importer of U.S. agricultural products. Nigeria is also the largest oil exporter, with

oil accounting for over 90 percent of its foreign exchange. If oil prices remain at current levels, export earnings will be cut in half. Other affected countries include Cameroon, Angola, Congo, and Gabon. However, a 50-percent reduction in oil costs in the remaining Sub-Saharan countries could enable them to use scarce foreign exchange for other imports.

The Food Security Act of 1985 and its promotion of exports should help reduce the trade deficit. Provisions in the bill include making commodities more price competitive and encouraging the reduction of trade barriers. Also, existing credit programs were broadened and new programs were authorized. For example, the Agricultural Export Credit Revolving Fund, which allocates CCC commodities to be used to counter unfair trade practices, was reauthorized. A barter program was introduced which would trade CCC commodities for strategic materials. The cargo preference law was changed to exempt commercial exports from the preference and to increase the amount of food aid shipments carried by U.S. vessels. Also, U.S. exports should become more competitive as the value of the dollar declines, although the full impact of the decline may not be felt for over a year. The combined effect of these factors should work to reduce the trade deficit with Africa and the Middle East. [Stacey Rosen and Shahla Shapouri (202) 786- 1680]

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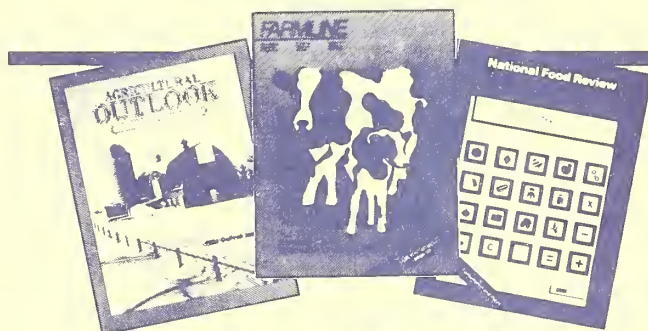
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